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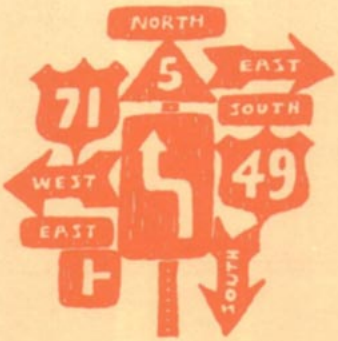
Ideas on Liberty

JUNE 1977



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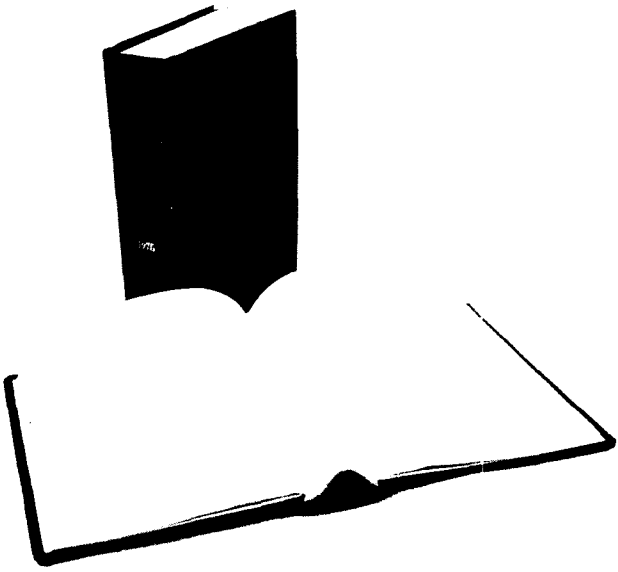

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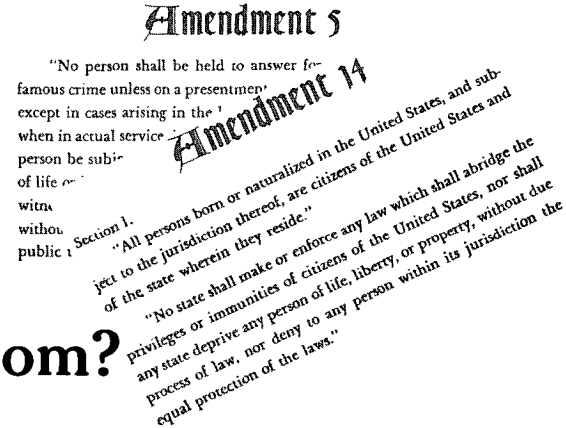
George C. Leef

How Did We Lose Our Freedom?


Amendment 5
"No person shall be held to answer fo-
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except in cases arising in the
when in actual service
person be subj
of life o
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public
Amendment 14
Section 1.
"All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the state wherein they reside."
"No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States, nor shall any state deprive any person of life, liberty, or property, without due process of law, nor deny to any person within its jurisdiction the equal protection of the laws."

MANY AMERICANS have become aware of the great extent to which Federal and State regulation of their lives has cut into their liberty. So pervasive have the regulations become, and so domineering and powerful the regulators, that the thoughtful citizen may well be driven to wonder how this unhappy situation ever came about.

After all, we still live under a Constitution designed to protect life, liberty, and property. Why has not that document served to spare us from this plague of authoritarianism which seems to spread inexorably across the land? It may come as a surprise to those who have never studied law, but there was a time when it did, when the judiciary understood the Constitution as providing a large measure of protection against legislative enactments which whittled away at our freedom.

Unfortunately, the courts abandoned their defense of "economic freedom" and "property rights" at the same time as the nation swooned before the seductive promises of collectivism. There followed a long period during which the courts would accept virtually any measure the legislators might enact, so long as it could be argued—however speciously—to advance the "public welfare."

The purpose of this article is to trace briefly the evolution of judicial response to the constitutional dictate that neither Congress nor any state may "deprive any person of life, liberty, or property, without due process of law."

Mr. Leef is a student in the Duke University School of Law, Durham, North Carolina.

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The Early Cases: "Substantive Due Process"

In the early years of this century, the Supreme Court, and many state courts, often found legislative enactments which infringed upon a citizen's freedom to be unconstitutional, as violative of the Fifth or Fourteenth Amendment. Probably the most famous—to many lawyers, infamous—case illustrating the judiciary's early resistance to "progressive" legislation which cut deeply into the fabric of liberty is *Lochner v. New York*[1].

In that case, Lochner, the owner of a bakery, had been convicted of a misdemeanor under a New York statute which prohibited employers and employees in the baking business from contracting for more than ten hours of work per day, or sixty hours per week. The New York Court of Appeals having upheld his conviction, the defendant appealed to the United States Supreme Court. In a 5-4 decision, the Court reversed the conviction. Mr. Justice Peckham, writing the majority opinion, first discussed the relationship between the individual's right to enter into contracts and the state's power, under certain circumstances, to prevent him from doing so.

> The general right to make a contract in relation to his business is part of the liberty of the individual protected by the Fourteenth Amendment. . . . Under that provision, no State can deprive any person of life, liberty, or property without due process of law. The right to purchase or sell labor is part of the liberty protected by this amendment unless there are circumstances which exclude the right. There are, however, certain powers, existing in the sovereignty of each State . . . somewhat vaguely termed police powers, the exact description and limitation of which have not been attempted by the courts. Those powers relate to the safety, health, morals, and general welfare of the public. Both property and liberty are held on such reasonable conditions as may be imposed by the governing power of the State in the exercise of those powers, and with such conditions the Fourteenth Amendment was not designed to interfere.

So the Court's problem was to decide whether New York's law forbidding bakers to work more than sixty hours per week was a reasonable exercise of the state's power over health, safety, or general welfare.

Unjustified Interference

Five justices thought that this interference with freedom of contract was not justified under the police power. They saw no need to treat bakers as "wards of the state," as they presumably were quite capable of making contracts in their own best interests. Moreover, any relationship to the public health or safe-

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ty which might be thought to be furthered by this regulation was too remote and speculative to support it. The Court wrote, "There must be more than the mere fact of the possible existence of some small amount of unhealthiness to warrant legislative interference with liberty."

The state also attempted to defend its statute on the ground that it promoted a strong and robust population. The Court treated this argument with the scorn it deserved—virtually any paternalistic law might be adopted under such a rubric, and if so, the Constitution's protection would be "visionary." In short, the Court found this law nothing more than a "mere meddlesome interference with the rights of the individual," not bearing any substantial relation to public health, safety, morals, or general welfare and therefore an unconstitutional deprivation of liberty.

As a parting shot, the Court observed that if this statute were valid, there would be no stopping point for legislation impinging upon the contractual relations of employers and employees. Mr. Justice Peckham's prophecy has, of course, proved to be distressingly accurate.

A Hierarchy of Rights

The *Lochner* rationale is known to lawyers as "substantive due process." That is to say, the due process of law of which the Fifth and Fourteenth Amendments speak means more than that proper procedures must be followed before a citizen may be deprived of his life, liberty, or property. It means that there are some restrictions upon liberty which are so unjustifiable, either because of the extent of the restriction or the insignificance of the end sought to be furthered thereby, that they will be struck down, even if all legal procedures in enacting and enforcing the law were complied with. It implicitly recognizes that there is a hierarchy of rights protected by the Constitution and that the individual's liberty, to make contracts, for instance, will be preferred unless the state can show a compelling reason why it should not be.

To overcome this presumption, the state must do more than merely put forth its conclusion that the restriction is necessary to protect health, safety, or public welfare, and any arguments it advances will have to be sound ones. Usually, of course, this burden could not be met, and the enactment would be struck down.

Furthermore, the Court was not hesitant to look behind verbal smokescreens to see the real purpose of a law. The opinion in *Lochner* expressly noted that not infrequently a legislature will pass a law, ostensibly in the interest of the

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public welfare, which in fact is calculated to benefit only a small, favored group. With the courts willing to make such close scrutiny of the legislative output, the citizen was spared many an encroachment upon his freedom.

Maintaining its solicitude for personal liberty, in the years after *Lochner*, the Court would find numerous regulatory devices violative of the due process clause. In *Adair v. U.S.*,[2] the Court struck down a statute which made it a criminal offense for a carrier engaged in interstate commerce to discharge an employee because of membership in a labor organization. Similarly, a state attempt to outlaw the "yellow-dog" contract was invalidated in *Coppage v. Kansas*.[3] A federal minimum wage law for adult women was held unconstitutional in *Adkins v. Children's Hospital*.[4] A Washington statute which forbade anyone to accept payment for the service of finding employment for another failed to pass the Fourteenth Amendment's test in *Adams v. Tanner*,[5] and the same fate befell

"No doubt, wherever the right of private property exists, there must and will be inequalities of fortune; and thus it naturally happens that parties negotiating about a contract are not equally unhampered by circumstances. This applies to all contracts, and not merely to that between employer and employee. Indeed, a little reflection will show that wherever the right of private property and the right of free contract co-exists, each party when contracting is inevitably more or less influenced by the question of whether he has much property, or little, or none; for the contract is made to the very end that each may gain something that he needs or desires more urgently than that which he proposes to give in exchange. And since it is self-evident that, unless all things are held in common, some persons must have more property than others, it is from the nature of things impossible to uphold freedom of contract and the right of private property without at the same time recognizing as legitimate those inequalities of fortune that are the necessary result of these rights."

Coppage vs. Kansas, 236 U.S. 1 (1915)

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a Tennessee statute fixing the retail price of gasoline in *Williams v. Standard Oil.*[6] This is by no means an exhaustive catalogue, but serves to illustrate the Court's adamant insistence that fundamental though not expressly enumerated rights, such as that of contract, would be protected against all but demonstrably necessary interference.

The Court Abdicates

This solicitude for personal liberty, however, did not survive the Depression. Even before the famous switch of 1937,[7] the Court had caved in under the "Do Something!" pressures of the early thirties and upheld legislation it certainly would not have twenty years before. A case most representative of the Court's new understanding of due process of law is *Nebbia v. New York*[8]. A New York statute of 1933 established a Milk Control Board with power to fix minimum and maximum retail prices for milk. A price of nine cents per quart was set. Nebbia, the owner of a grocery store in Rochester, was convicted of violating the Board's order upon proof that he had sold two quarts of milk and a five cent loaf of bread for eighteen cents.

The question before the Court was the constitutionality of this price-fixing scheme. The state advanced a number of arguments to justify its interference with the liberty of buyers and sellers of milk to arrive at a mutually satisfactory price. The Court was told that the prices producers had been receiving were too low and this threatened a relaxation of their vigilance against contamination; that "curtailment or destruction of the dairy industry" would cause a severe economic loss to the state; that there were "unfair and destructive trade practices" leading to low prices; and that the unequal distribution of surplus milk led to "destructive competition."

The Court swallowed all of this hook, line, and sinker. A majority of five justices made it clear that the Court would not inquire into the wisdom of a legislative enactment to test it on due process grounds.

> So far as the requirement of due process is concerned, and in the absence of other constitutional restrictions, a state is free to adopt whatever economic policy may reasonably be deemed to promote the public welfare, and to enforce that policy by legislation adapted to its purpose. The courts are without authority either to declare such policy, or when it is declared by the legislature, to override it. . . . With the wisdom of the policy adopted, with the adequacy or practicability of the law enacted to forward it, the courts are both incompetent and unauthorized to deal.

The Court therefore refused to consider just how control of the retail price of milk would do anything to

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improve the prices received by producers, nor was there any mention of the self-evident fact that the primary effect, if not purpose, of the law was the elimination of competition from small grocers for large milk distributors—surely a measure not in the interest of the *public* welfare.

With this new, self-effacing position, the Court abdicated its role as a protector of liberty and property as comprehended by the Fifth and Fourteenth Amendments. Whereas before there had been an unspoken presumption in favor of the individual's freedom, to be overcome only upon a showing that some legitimate and significant concern for the public health, safety, or general welfare required the restriction, the Court's new approach would be to defer to virtually any rationale the state could put forth. And, as we shall see, the Court would even go so far as to invent justifications for the most patently indefensible laws, so great was its desire to allow legislatures a free hand in experimenting to solve "social problems."

A Series of Reverses: The Domino Effect

After *Nebbia*, the rest of the dominoes fell quickly. Minimum wage laws were upheld in *West Coast Hotel v. Parrish*.[9] In that case, Washington's statute recited that, "The welfare of the State of Washington demands that women and minors be protected from conditions of labor which have a pernicious effect on their health and morals," and declared that "inadequate wages" had such an effect. That settled the matter for Chief Justice Hughes and four other members of the Court.

The same attitude led the Court to sweep away those cases which had upheld an employer's right to refuse to employ union members. In *Phelps Dodge v. N.L.R.B.*,[10] Mr. Justice Frankfurter, writing the Court's opinion, looked to the alleged necessity for workers to be able to organize if the national goal of industrial peace was to be attained, and concluded that if an employer were free to decide whether or not he wanted to employ union members, the whole principle of self-organization would be undermined. Congress was therefore within its power to make it an unfair labor practice for an employer to refuse to hire an applicant because of his membership in a labor union. And what of cases such as *Adair* and *Coppage*? They had been "sapped of their authority."

The Court Capitulates

A truly outrageous case illustrating the Court's extreme aversion to conflict with the legislatures where merely "economic freedoms" were

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involved is *Williamson v. Lee Optical.*[11] An Oklahoma statute forbade an optician to fit lenses into a new glasses frame or to make a duplicate lens without a prescription from a licensed optometrist or ophthalmologist. A more paternalistic and illiberal statute than this is hard to imagine.

Lee Optical sought a declaratory judgment in Federal district court to pronounce the law unconstitutional and enjoin its enforcement. The district court agreed with the plaintiff's contention that the law was not reasonably or rationally related to the health or welfare of the people, and granted the relief sought. The Attorney General of Oklahoma appealed to the Supreme Court, which reversed the district court's judgment. In an opinion by Mr. Justice Douglas, the Court vouchsafes to us a variety of reasons which might have caused the legislature to believe that this law was reasonably calculated to protect the public health and welfare.

> The legislature might have concluded that the frequency of occasions when a prescription is necessary was sufficient to justify this regulation of the fitting of eyeglasses. . . . Or the legislature may have concluded that eye exams were so critical, not only for the correction of vision but also for the detection of latent ailments or diseases, that every change in frames and every duplication of a lens should be accompanied by a prescription from a medical expert.

Thus we see that the freedom of a person to engage in a useful service falls before any minute "public welfare" concern—encouraging eye examinations—which the Court can attribute as possibly having motivated the legislature to act. There was no dissent from this embarrassing nonsense.

Finally, some mention must be made of *Ferguson v. Skrupa.*[12] A Kansas statute forbade any person to engage in the business of "debt adjusting" except as incident to the practice of law. Skrupa, who had been doing business as "Credit Advisors" sought an injunction against enforcement of the statute in Federal district court. Kansas argued that the business of debt adjusting lent itself to "grave abuses against distressed debtors, particularly in the lower income brackets," but the court found this law to be an unreasonable regulation of a lawful business in violation of the Fourteenth Amendment. Kansas appealed, and, not surprisingly, the Supreme Court reversed, citing the *Lee Optical* case.

What sticks in the throat about the opinion is Mr. Justice Black's statement that, "Whether the legislature takes for its textbook Adam Smith, Herbert Spencer, Lord Keynes, or some other is no concern of ours." Does this mean

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that a state, or Congress, might declare an end to private ownership of property, justifying its action upon an alleged need to promote "social harmony" or some other phrase calculated to waft by insouciant judges trained to believe that whatever a legislature says promotes the general welfare is unchallengeable? If so, then the document written by Madison, *et al.*, and the document our present jurists are reading, are entirely different.

Will the Court Reconsider?

We have seen that since the mid-thirties, the Court has demonstrated a marked lack of concern over what some refer to as "property rights," and that this attitude led to an extreme deference toward any legislation which regulated economic activity. There may, however, be a faint glow on the horizon. Recently the Court has used language which leads one to believe that it may be interested in re-entering the long-abandoned battlefield over such "non-preferred" rights as contract and property. In 1972 Mr. Justice Stewart wrote,

> [T]he dichotomy between personal liberties and property rights is a false one. Property does not have rights. People have rights. The right to property without unlawful deprivation, no less than the right to speak or the right to travel, is in truth a "personal" right, whether the "property" in question be a welfare check, a home, or a savings account. In fact, a fundamental interdependence exists between the personal right to liberty and the personal right in property. Neither could have meaning without the other.[13]

One can only hope that the Court will seize upon this newly rediscovered truth to safeguard the citizen's right to be free of arbitrary and unreasonable deprivations of liberty and property with as much zealousness as it has protected the rights guaranteed by the First Amendment.

In Defense of Property

The days of substantive due process will not soon be resurrected, but the judiciary can and should take a more active role where contract and property rights are involved. At the least, the Court should reconsider its self-effacing position that it has no competence to judge whether a law is a reasonable method of achieving a legitimate purpose. The state should be required to do more than merely allege its conclusion that a restriction on freedom is necessary to prevent a significant evil. It should have to demonstrate that the restriction actually does make a contribution to the end sought.[14] A good many useless and even counterproductive statutes would fail under such scrutiny.

Or the Court could adopt a least

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restrictive means approach. In such a case as *Ferguson v. Skrupa*, for instance, the Court would in effect say to the legislature, "If you wish to prevent abuses in debt adjusting, you may do so, but you will have to find some way which is less restrictive of personal freedom than an outright prohibition on entering the business." What this would accomplish would be to compel legislative bodies to take cognizance of the fact that liberty and property rights under the Fifth and Fourteenth Amendments are not archaic notions which will take a back seat to a scheme of regulation for every "problem" the legislators may discern, but that they are indispensable components of freedom which must be given appropriate weight in the balance of competing interests.

Final responsibility for our decline in freedom lies with the courts. Retreat from the old vigilant protection for the rights of liberty and property was so complete that for many years we have lived with a presumption that anything the state did in the way of economic regulation was reasonable and of sufficient importance to justify the diminution in the citizen's freedom. Our freedom has thus been left to the mercies of elected representatives who more often than not are concerned only with satisfying the demands of assorted interest groups, to the detriment of the public at large. It is time for the courts to resume their intended role as defenders of the citizen against rapacious and authoritarian legislation, restoring the words liberty and property to their proper respect under the Constitution.

— FOOTNOTES —

[1]198 U.S. 45 (1905).

[2]208 U.S. 161 (1908).

[3]236 U.S. 1 (1915).

[4]261 U.S. 525 (1923).

[5]244 U.S. 590 (1917).

[6]278 U.S. 235 (1929).

[7]The "switch" actually relates to the Court's position on the meaning of "interstate commerce" which Congress may regulate under Article I, section 8. Compare *Schechter Poultry Corp. v. U.S.*, 295 U.S. 495 (1935) with *N.L.R.B. v. Jones & Laughlin Steel*, 301 U.S. 1 (1937).

[8]291 U.S. 502 (1934).

[9]300 U.S. 379 (1937).

[10]313 U.S. 177 (1941).

[11]348 U.S. 483 (1955).

[12]372 U.S. 726 (1963).

[13]*Lynch v. Household Finance*, 405 U.S. at 552 (1972).

[14]Such a means-oriented test has recently been advocated by at least one commentator. See Gunther, "Foreword: In Search of Evolving Doctrine on a Changing Court: A Model for a Newer Equal Protection," 86 *Harvard Law Review* 1.

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WHY INFLATION IS WORLDWIDE

Henry Hazlitt

FOR the first time in the history of the world, practically every country is on a paper money basis and every country is inflating. It is instructive to recall how this has come about.

For a full explanation, we must go back at least 63 years to the outbreak of World War I in 1914. The first thing that happened, almost on the day the war broke out, was that the belligerents suspended the convertibility of their currencies into gold.

It is important to remember why they did this. They did not do it because they suddenly discovered that gold was out of date, that it was a "barbarous relic," that a paper standard was altogether more modern, efficient, and scientific. They did it, on the contrary, because gold had suddenly become too valuable. It was a precious war resource. The belligerent governments knew they would need it to buy arms and food from neutrals abroad, and that gold was the only currency other countries would accept. They found this out very quickly. England, for example,

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You Should Know About Inflation.*

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declared war on Germany on August 4. A run developed on the Bank of England. The gold reserve, which had been £38.6 million in July, was pulled down within a few days to £26 million. Convertibility was suspended on August 5. In addition, export controls were imposed on gold.

On Again, Off Again

When the First World War ended, some of the belligerents went back to the gold standard. England again is the outstanding example of the problems of doing this and of the mistakes that were made. Resumption of gold payments was undertaken—at the pre-war rate for the pound—in 1925. But two greatly changed circumstances were overlooked. First, there had been an enormous expansion meanwhile in the issuance of British currency and credit—that is, in the amount of paper promises that people might want to convert into gold. And second, as a result of that, prices had risen substantially. If in 1925 the currency had been made convertible only at a correspondingly higher "price" for gold, the resumption of gold payments might have worked. But the resumption at the old rate made gold too much of a bargain, and forced a contraction of British credit and a fall in prices.

In September, 1931, England went off the gold standard once again. The U.S. likewise abandoned the gold standard, at its old rate of $20.67 an ounce, in 1933. Unfortunately, it was not the war and postwar inflations in both countries that were blamed for this result, or the ill-advised retention of the old gold-conversion rates, but the gold standard itself.

When the Second World War broke out, in September, 1939, many of the world's currencies were again thrown into chaos, and for substantially the same reasons as in World War I. But this time, before the war had even ended in May, 1945, the representatives of some 43 nations were invited by the United States to a conference at Bretton Woods, New Hampshire, to try to set up a new international currency system.

A Tenuous Link to Gold

What they set up, under the leadership of Lord Keynes of England and Harry Dexter White of the United States, was a compromise designed to please the advocates of paper money, "flexibility," and "national independence" or "self-determination" of currencies, but at the same time to reassure conservatives that these currencies would retain a "link" to gold. The supposed great merit of the new system was that the monetary role of gold—the "tyranny" of gold—would be drastically reduced.

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Only one currency, the U.S. dollar, would have to be convertible into gold—and even then no longer at the demand of anybody who held dollars, but only at the request of foreign central banks. All the other currencies were to be kept convertible merely into the dollar. With the dollar anchored to gold, and all the other currencies tied to the dollar, stability was to be assured, and the need for gold reserves to be minimized.

The system seemed to relieve every other country but the United States from strict monetary discipline. If any country got into trouble, it was assured almost automatic loans and credit to bail it out. The agreement also provided that any nation could at any time devalue its currency by up to 10 per cent, and explicitly stipulated that "the Fund shall raise no objection." The real but unstated and unacknowledged purpose of the Bretton Woods Agreements, as the present writer pointed out at the time (in *The American Scholar,* Winter 1944-45) was "to make resort to inflation easy, smooth, and above all respectable."

Signs of Breakdown

As early as 1949 the system started to break down. The British pound was devalued 30 per cent on Sept. 18 of that year—from $4.03 to $2.80. Twenty-five other currencies were devalued within the following week. In succeeding years there were literally hundreds of devaluations of currencies in the Fund.

The real but unstated and unacknowledged purpose of the Bretton Woods Agreements . . . was to make resort to inflation, easy, smooth, and above all respectable.

As early as 1949 the system started to break down.

What had been overlooked from the beginning was the enormous increase in the burden and responsibility that the Bretton Woods arrangements put upon the United States. For the other countries could hold dollar reserves on the assumption that this was just as good as holding gold. But their currency stability was, in fact, made dependent on the soundness of the dollar.

Yet successive U.S. governments remained completely oblivious of the gravity of the responsibility we had assumed. Our officials kept undermining the dollar—by foreign aid, huge domestic spending, chronic and mounting budget deficits, and by pushing down domestic interest rates and increasing the money supply. By 1968 we had practically ceased keeping the dollar convertible into gold, even for central banks. And on August

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15, 1971 we abandoned the gold standard openly and officially.

Our repudiation of our solemn commitment was followed by mounting inflation, devaluations, and monetary demoralization everywhere. There seemed no longer any point in maintaining fixed exchange rates. There was not even any agreement on what they could be fixed to.

At the end of this article I append three tables, published over a 20-year period by Citibank (formerly First National City Bank of New York) in its *Monthly Economic Letter.*

What I have labeled Table I appeared in the bank's letter of December, 1956. It shows the depreciation of the purchasing power of money in each of 16 countries listed, in the ten years from 1946 to 1956, as measured by the rise in official cost of living figures. The third column calculates the annual rate of depreciation in those years, compounded.

The bank's original purpose in making this calculation was to show how much annual interest a saver in each country would have had to receive, and reinvest at compound interest, to have the same amount of purchasing power in 1956 as he had in 1946. In nearly every country, the table revealed, if he had bought and held his own government's bonds, he would not only have received no net interest, but would have lost heavily on his real principal.

Table II, published in the bank's monthly letter of July 1967, shows the depreciation of the purchasing power of the money of 45 countries. It carries the record from 1956 to 1966. In addition, it calculates the annual rate of currency depreciation in each of these countries during the ten years 1956 to 1966.

Table III, which appeared in the September 1976 letter, compares the purchasing power of money for 50 countries—25 industrial countries and others in Europe, and 25 "less developed" countries—from 1965 to 1975. It also calculates their annual rate of depreciation for the five years 1965 to 1970, and for the five years 1970 to 1975.

Depreciation Rates Compared

From these tables the interested reader can calculate the approximate depreciation over the full 30-year period of any one of at least 16 of these currencies, and the 20-year depreciation of most of the rest. I had originally intended to consolidate these three tables into a single one, but it seems to me more instructive to present them separately in their original form, because much more is brought out by comparisons between them, and consolidated tables would add little of importance.

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What the three tables show is not only that for nearly all these countries the inflation is at least 30 years old, but that its long-term tendency has been to accelerate rather than diminish. In the ten years 1946 to 1956, the median depreciation among the 16 currencies included in the table was 4.3 per cent a year. In the next ten years—1956 to 1966—the median depreciation among the 45 currencies included was still only 3.4 per cent per year. In the five years from 1965 to 1970, however, the median annual depreciation among the currencies of 25 industrial countries was back to 4.4 per cent and of 25 less developed countries to 4.2 per cent. And in the five years from 1970 to 1975 the median annual depreciation among the industrial countries had risen to 8.5 per cent, and among the less developed countries to 10.3 per cent.

I have compared the *median* rates of currency depreciation in these four periods—that is, the annual rate of depreciation in the middle country in each table—because to have figured and presented the *average* annual rate of depreciation shown in the respective tables would have given a much exaggerated impression of the extent of the general worldwide inflation. To cite only the median depreciation, on the other hand, greatly understates what has happened. In the first decade listed—1946-1956—for example, the Chilean peso lost 95 per cent of its value. In the second decade—1956-1966—the Brazilian cruzeiro lost 98 per cent even of its 1956 value, though it had already lost 74 per cent of its 1946 value in the preceding decade. Then in the decade 1965-1975 the Chilean and Argentine pesos lost more than 99 per cent even of their appallingly shrunken 1965 purchasing powers. Few of us can adequately conceive the extent of the tragedies that these depreciations brought to millions of families in the countries involved.

A Bad Example

In one regard, the generally increased worldwide rate of inflation since 1970 was what might have been expected. For when the United States abandoned convertibility of the dollar into gold, it not only set an example in itself demoralizing, but it left no fixed standard for other currencies to hook themselves on to.

(The Special Drawing Rights—SDRs—issued by the International Monetary Fund, had never been directly convertible into gold, and they were quickly revalued as a daily-fluctuating average or "market basket" of sixteen paper currencies, each itself hourly changing.)

But the American desertion of

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gold convertibility in 1971 was, of course, merely an additional cause of a worldwide inflation that had been going on ever since the outbreak of World War II. That inflation started when the governments directly involved had to increase their budget expenditures at almost any cost in order to prosecute the war. But when the war was over, they did not prudently return to their previous level of expenditures. They had also enormously increased their tax revenues, even if not proportionately to their war expenditures, and instead of cutting taxes back to peacetime levels, they increased or added all sorts of "welfare" measures—mainly vote-buying handouts to pressure groups—to make use of the new revenues. What no one sufficiently realized was that once these welfare measures were established, it would come to be regarded as political suicide by the politicians in power to attempt to cut them off or even diminish them.

There has been still a third reason for the increasingly widespread inflation in recent years. The Bretton Woods Agreements, as we have seen, gave explicit sanction to devaluation—provided it did not exceed 10 per cent in any single step. Now when Alphasia, which borders on and does a lot of trade with Betavia, devalues, a first effect is for the citizens of Alphasia to increase their exports to Betavia, and to reduce their imports from it, because immediately following the devaluation the cost of Alphasia's goods are lower in Betavia and the cost of Betavia's goods are higher in Alphasia. But this means that Alphasia's devaluation can seriously unbalance and disrupt Betavia's trade. This may lead Betavia to declare a "protective" devaluation.

The only thing that seems likely to diminish such competitive devaluation, if not to bring it to a halt, is an increasing recognition within each country that the supposed trade "advantages" of a devaluation are both transitory and illusory; and that the great body of the citizens of the country that either initiates or follows the practice are in the long run hurt far more than helped by it.

Cure for Unemployment

But on top of all these there has been still a fourth major reason for worldwide inflation. This is the fixed idea that inflation is necessary to prevent or reduce unemployment. To the extent that there is any truth in this, it is true only for one reason: As long as the special legal immunities and privileges now granted to labor unions in most countries enable those unions to exact wage-rates higher than the existing market can sustain, more inflation—higher prices—will seem

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necessary to make the higher wage-rates payable. Otherwise—as I have shown elsewhere—the belief in the necessity for inflation as a remedy for unemployment has no real basis.

Lord Keynes gets perhaps too much credit—or blame—as the inventor of this myth. When his *General Theory of Employment, Interest, and Money* appeared in 1936, our own government, for one, had already been following policies of uninterrupted deficit spending for six fiscal years. Keynes's theories simply supplied a more elaborate rationale to justify what politicians had already been doing. But his authority and prestige prolonged and intensified the disease.

TABLE I

Country	Indexes of value of money* 1946	1956†	Annual depreciation, compounded
Switzerland	100	86	1.5%
Germany	100	72	3.2
India	100	72	3.2
United States	100	71	3.4
Venezuela	100	70	3.5
Netherlands	100	67	4.9
Canada	100	65	4.2
South Africa	100	65	4.2
Sweden	100	65	4.3
United Kingdom	100‡	65	4.6
New Zealand	100	59	5.2
France	100#	58	6.5
Mexico	100	47	7.4
Australia	100	46	7.5
Brazil	100	26	12.7
Chile	100	5	25.3

Note: depreciation computed from unrounded data.
*Measured by rise in official cost of living or consumers' price index.
†Latest month available. ‡1947 #1948.

TABLE II

Country	Indexes of value of money 1956	1966	Annual depreciation, compounded
Guatemala	100	100	0.0%
Venezuela	100	90	1.1
Honduras	100	86	1.5
United States	100	84	1.8
Luxembourg	100	83	1.9
Canada	100	82	2.0
Australia	100	82	2.0
Greece	100	81	2.1
Thailand	100	80	2.2
Belgium	100	80	2.2
South Africa	100	80	2.2
Germany (West)	100	79	2.3
Portugal	100	78	2.4
Switzerland	100	78	2.4
New Zealand	100	77	2.6
Ecuador	100	76	2.6
Austria	100	75	2.8
U.A.R. (Egypt)	100	75	2.9
United Kingdom	100	74	2.9
Italy	100	72	3.2
Ireland	100	72	3.2
Norway	100	72	3.3
Netherlands	100	71	3.4
Pakistan	100	70	3.5
Iran	100	70	3.5
Philippines	100	70	3.6
Denmark	100	69	3.6
Mexico	100	69	3.7
Sweden	100	68	3.8
Japan	100	66	4.0
France	100	62	4.7
Finland	100	60	4.9
China (Taiwan)	100	58	5.2
Israel	100	58	5.4
India	100	57	5.5
Spain	100	49	6.9
Vietnam	100	46	7.4
Turkey	100	45	7.7
Peru	100	41	8.5
Korea	100	33	10.5
Colombia	100	32	10.8
Bolivia	100	25	13.0
Chile	100	10	20.6
Argentina	100	6	24.5
Brazil	100	2	31.0

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TABLE III

	Industrialized countries and other Europe					Less-developed countries			
	Indexes of value of money (1965=100)		Annual rate of depreciation of money			Indexes of value of money (1965=100)		Annual rate of depreciation of money	
	1970	1975	'65-'70	'70-'75		1970	1975	'65-'70*	'70-'75*
Switzerland	85	58	3.3%	7.1%	India	72	42	6.4%	10.4%
West Germany	88	65	2.8	5.8	Singapore	94	57	1.2	9.1
United States	81	59	4.1	6.3	Panama	92	65	1.6	6.7
Denmark	73	47	6.2	8.5	Malaysia	94	66	1.3	6.8
Austria	85	60	3.2	6.8	China (Taiwan)	81	45	4.2	10.9
Canada	83	58	3.7	6.8	Philippines	75	37	5.6	13.2
Netherlands	79	52	4.6	7.9	Honduras	92	68	1.7	5.9
France	81	53	4.2	8.1	Iran	93	59	1.4	8.6
Japan	77	45	5.2	10.2	Thailand	88	58	2.5	8.0
Norway	79	53	4.7	7.7	Bolivia	75	32	5.6	15.8
Belgium	84	56	3.4	7.7	Venezuela	92	70	1.6	5.4
Luxembourg	86	61	3.0	6.7	Paraguay	94	54	1.3	10.3
Sweden	80	55	4.4	7.3	Ecuador	79	42	4.5	10.2
South Africa	85	55	3.2	8.5	Jamaica	77	39	5.0	12.9
Australia	86	53	3.0	9.3	Trinidad/Tobago	83	45	3.7	11.6
Greece	88	49	2.4	11.0	Colombia	62	26	9.2	16.0
Yugoslavia	59	24	10.0	16.1	Mexico	84	47	3.5	10.8
Italy	86	50	2.9	10.2	Kenya	91	54	1.8	9.9
Spain	78	44	4.8	10.8	S. Korea	58	29	10.2	13.1
Finland	64	37	8.5	10.4	Israel	82	32	3.9	17.3
Ireland	77	41	5.0	11.7	Peru	63	35	8.9	11.2
Turkey	67	29	7.6	15.7	Brazil	30	11	21.5	17.4
New Zealand	79	48	4.7	9.3	Zaire	36	15	18.5	15.7
Britain	80	43	4.4	11.5	Chile	31	†	20.9	67.5
Portugal	74	36	6.0	13.1	Argentina	41	†	16.2	39.2
Median rates			4.4	8.5	Median rates			4.2	10.3

*Compounded monthly. †Less than 1.

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The Technician's Role in Advancing Liberty

William D. Burt

SPREADING the idea of liberty is often thought to be the sole province of the philosopher, the political theorist, the economist. Not so! Freedom is a prerequisite of successful use of the human mind, from which all human action originates. Thus, it is everyone's concern. And the insights of many occupations and professions, especially those I will label the "technicians"—engineers, planners, scientists—can be of considerable assistance in advancing liberty.

How? Certainly their expertise in pointing to the ways in which a free economy would enrich our lives cannot be the main tool for "marketing" liberty. That main justification rests on the premise that liberty from coercion is the only social condition consistent with human nature. To emphasize the market's abundance over its essential morality traps one into the very old error of supposing that production and prosperity are automatic.

Now, it is true that people will achieve their just aims more successfully in freedom than under the point of a gun, but there is no assurance that the streets will be paved with gold. And, as an historical aside, one may fairly say that some of the most massive government intrusions into American business—railroad regulation and land use control in particular—received impetus from

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the keen disappointment expressed by immigrant settlers who had been promised "America, land of plenty," not "America, land of liberty."

Philosophy Spurned

It is not enough, however, to continually reiterate to the public at large that the good human existence requires the banishment of coercion. "Oh, that's just philosophy," will come the retort, meaning "Oh, that's just gibberish." And, after the way in which philosophy, law, and economics have been abused in the service of state expansion, it should surprise no one that many people who quietly practice justice and individualism in their own lives nonetheless reject any philosophical argument as just another attack upon their liberties.

Thus it may seem that we are hemmed in. We know that promising a cornucopia which no man can guarantee is not the way to teach or justify the freedom philosophy. On the other hand, slavishly repeating first principles is not appropriate, either. The middle ground—simply compromising the two methods—is worst of all.

The paradox is more apparent than real, however. What is represented as one problem—disseminating the freedom philosophy—actually involves two distinct subproblems: *translation* and *teaching*. Before a rational being can be asked to judge a proposition, he must have it presented in a way that is meaningful to him. Only this can give him the incentive to expend the effort of understanding it more thoroughly. Where the words to express the proposition do not exist in his language (or where those which do exist are all suspect), then a practical demonstration may be necessary and appropriate.

In the minds of many potential adherents, *libertarianism will* remain just another "absurd" philosophy ("like all the rest . . .") until these individuals are given a reason to believe that "it works"; i.e., that it is consistently relevant to the real world. It implies no diminishing of our commitment to philosophical integrity to supply this reason. It is precisely here that the libertarian technician can answer the public's "show me" stance, and thereby stave off acquiescence to the nostrum that government must "do" something. Let's see how.

Land Use

Groups of citizens fighting tooth and nail to salvage their property rights from ever-increasing land use regulation have been with us almost as long as the zoning ordinance itself. But their role has been primarily defensive, and until very recently most would have agreed with the State planners' major con-

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tention that land use control is necessary to counteract the "chaos" of the marketplace, that only low density and slow property turnover make an unregulated market in land possible. Having conceded this, it becomes only a question of "when," not "whether," property rights are to disappear under a net of zoning regulations and the like.

Planners have told me that it was common knowledge and even a bit of an embarrassment within the planning profession that Houston, Texas, along with several other medium-sized American cities had long managed quite well without zoning. From another angle, those of us who admired the splendid new shopping malls built in recent years could see that much of the order and aesthetic excellence supposedly attainable only through regulation was being promoted by *private* managements. But knowledge of the true extent of this phenomenon was bottled up within the real estate business. That is, until free-market oriented "technicians" informed the public that what "couldn't be done" *was* being accomplished by private enterprise.

Bernard Siegan's *Land Use Without Zoning*[1] carefully studied Houston's non-zoning, and sent what may be properly called a shock wave through the hundreds of local zoning debates going on across the country. Aside from the obvious snag placed in the way of the zoning juggernaut, Siegan's book awakened interest in the free-market institution of private covenants—a kind of *voluntary* zoning wherein purchasers of property agree to land use restrictions placed on the deeds by the neighborhood's developer, or by unanimous approval of all the landowners in a neighborhood. Worked out in various degrees of elaboration and enforced as normal contracts, Houston's diverse welter of covenants has demonstrated a capability of providing both neighborhood security and the flexibility needed to accommodate change in America's fastest growing city. Testament to the system's adaptability is the fact that some of the city's best-acclaimed private urban renewal would not likely have been permitted under a traditional zoning ordinance.

The Art of Community

In *The Art of Community*[2] anthropologist Spencer H. MacCallum called attention to progress in managing the social aspects of

[1] Published by D.C. Heath and Company, 125 Spring St., Lexington, Mass. 02173, 1972.

[2] Published by The Institute for Humane Studies, 1177 University Drive, Menlo Park, Calif. 94025, 1970.

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hotels, shopping centers, industrial estates, mobile home parks, and other forms of the "proprietary community," where the public environment (often including traditionally "government" services) is provided and maintained by a private owner management.

Proprietary communities and, with them, the fast-growing profession of real estate *management,* succeed precisely because they satisfy by voluntary arrangement between owner and tenant the very real "community" environmental needs which government has only infrequently and poorly met. The reason? Proprietor and tenant are bound by explicit contract, and each rewards the other only for performance. A complete disjunction, on the other hand, lies between ill-defined, grudgingly-delivered government services and the method by which they are priced: taxation by force.

The record of proprietary communities is already remarkable enough to lend considerable credence to MacCallum's claim that fractionated small-lot "private" ownership interspersed with and fronting on government "no-man's land" and entangled with coercive regulation represents a *breakdown* in community organization, and is an interim step between the former "society of kinship" and an evolving "society of contract." Almost overlooked by property-rights partisans fighting the intrusion of land use legislation, this important free-market trend identified by MacCallum has done much to restore hopes and stimulate new ways of thinking. As with Siegan's non-zoning, proprietary communities provide a means to rescue people from the despairing conclusion that public amenities must be provided by government's armed might.

Dealing with the Various Problems of Pollution

It is in dealing with the problem of various kinds of pollution—soil runoffs, water-borne effluents, and noxious particles dispersed into the air—that the philosophy of the free market seems to be at its weakest. I have never known anyone to be persuaded by the nonetheless valid proposition that the solution lies in defining and enforcing property rights. All the more valuable, then, if a resourceful libertarian technician can shed some light on how a private property system could meet this tough challenge.

Those close to the problem report, first of all, that conflicts among competing demands for a resource used in common are not at all unusual in the historical development of property law. Mineral rights, construction airspace rights, various rights-of-way all illustrate the fact that technological progress

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through the years has continually brought more and more parts of the natural environment into the realm of *scarce goods*. That we are, as they say, always placing greater demands upon the universe's resources, is something to be rejoiced in, not lamented. For the underlying reason is man's increasing ability to make his environment serve his needs, to make *useful, transact-able property* out of what was formerly an inert general condition of human existence. As the market place evolves new kinds of property, so must the law recognize new applications of the principle of property.

The problems of determining the rights bound up in any given kind of ownership are knotty enough in any case, but when law is *prevented* from resolving conflicts among competing demands for a scarce resource, those conflicts can only multiply and be exacerbated.

Air and water, which long ago became scarce goods in certain contexts, have remained forcibly communalized in such a fashion. And we have seen that regulation of their use "in the public interest" has proved to be a device for *managing* but not resolving conflict. (This should surprise no one. As we are incessantly reminded, the State exists to manage conflict—implying that State interventions prevent anarchy from breaking out on the market. But it also means that the government's interest lies in *creating* and *maintaining*, albeit within "manageable" limits, conflict which the market would resolve.)

Practices Vary

Polluters are licensed to continue dumping in many cases where clear injustice results, and in other instances people are constrained from using their environment even though allegedly injured neighbors do not object. If justice emanates from this system, it is quite by accident; the only sense in which government air and water quality standards are not arbitrary is that they represent the reachable compromise among the various groups in political power. (This includes mollifying the public's intellectual leaders that such standards are properly dressed in the trappings of scientific method.) As with land use control, government's coercive communalization of natural resources does not offer an alternative method of resolving competing demands; regulation merely constitutes a *failure* to properly deal with the issue.

"The market," which is nothing more than many individuals each possessed of his own perception of justice, has no single instant answer to the pollution problem, either. That magnificently com-

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prehensive and consistent body of free market jurisprudence, the common law of property, took centuries to evolve. But the crucial catalyst toward the development of any such law was and is the acknowledgment of the application of property rights to all scarce goods.

Working from this premise, the Chester County (Pa.) Conservation District has shown how soil erosion runoff problems—and, one might suggest, other kinds of pollution—might be handled on the free market. Executive Conservationist Marshall Haws, with the endorsement of the county planning commission, has developed a model arbitration procedure which replaces detailed runoff regulations presently found in most municipal subdivision ordinances.

Aside from the fact that people are allowed to choose their own arbitration panel instead of submitting to a municipally-appointed zoning board, the proposal's most significant effect is to extract runoff litigation from the sphere of arbitrary regulatory standards and to fix property rights in certain runoff levels. For the arbitration process, in the words of the Chester County storm water management bulletin, is designed to ". . . permit the property owner to do anything he wants to do on his property, so long as he does not interfere with the right of his neighbor to do anything he (the neighbor) wants to do on his property. One teacup of *increased* runoff or one teaspoonful of mud passing a property owner's boundary onto a neighbor's property is doing damage to that property and is an interference with property rights."

Signs of Progress

Problems remain, obviously. For instance, it is not at all clear from this proposal whether a "just" level of runoff should be based upon a status quo, or upon some earlier, perhaps "natural condition" criterion. But everything needs to be evaluated within its context. Marshall Haws' plan for dealing with runoff pollution takes a major step away from coercively-imposed and non-property rights based orthodox regulations, acclimates the state to eventual disengagement from these matters, and inspires individuals to begin solving the theoretical and technical problems of fixing property in previously communalized goods.

Already, the supervisors of East Brandywine (Pa.) township have resolved that the water in the township is the property of residents rather than governmental authority, and the trend towards thinking of pollution in property terms will receive further impetus from the recent case of *Breiner* v. *C&P Home Builders* (U.S. Court of

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Appeals, 3rd Circuit), which found a construction company liable to landowners for increasing the flow of water onto their land.

Thus we have two of many possible examples demonstrating the comprehensiveness, consistency, and real-world relevance of the freedom philosophy. In the environmental field alone, private innovations in energy, transportation, natural resource management, recreational/scenic land use, and "privatization" of services like water, sewers, solid waste disposal, and others all provide equally thought-provoking evidence against the blithe assumption that the market is somehow impotent to satisfy these needs. These innovations have been produced and applied by the largest multinational corporations and by independent back-to-the-land homesteaders. Their appeal knows no class barriers. In the place of the State's hocus-pocus and misbegotten promises, they offer the picture of real people freely constructing real solutions to their problems.

One would be amiss to not acknowledge the caveats and limitations of our technician's role. People choose various productive occupations for reasons which, though they may be interesting in another context, are irrelevant to the purpose of advancing liberty. *As libertarians,* we are not interested in these private alternatives for their own sake, but for their capacity to introduce people to the ethic of freedom. Nor is it good reasoning to regard presently suggested alternatives as "blueprints" for what *will* take place on the free market when the floodwaters of government intervention recede some sunny day.

The Rightness of Freedom

It also needs to be noted that there is no "practical" answer at all to the collectivism, egalitarianism, and sheer hatred of free productive enterprise which sometimes underlie statist appeals. Only philosophy can respond to these assaults. The technician's counterexamples to the alleged inefficacy of the private property system are intended solely for those who have been simply misguided by generations of unceasing statist propaganda.

For those who already recognize the fundamental moral value of liberty, knowledge of practical private alternatives to government force is a celebration of the rightness of freedom. Who is not happy knowing that, if he were offered the chance tomorrow, he could begin building a free and just world? It reaffirms an old truth: that in the long run, it is *capitalism,* not statism, which is creeping up on mankind.

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World in the Grip of an Idea

Clarence B. Carson

6. Russia: The Communist Facade

THIS STORY is said to have been told by a man who served as a tour guide in and around Detroit, Michigan. One day he was assigned to show Ford's River Rouge plant to a group of visiting Russian engineers. The guide noted that they were soon in a jovial mood, laughing, talking, and generally in a festive spirit. Just as they passed the huge parking lot filled with cars, they became even more animated than usual. The one who spoke the best English addressed this question to the guide:

"Do they prepare themselves like this to impress all their visitors? Or is it just for us?"

"What do you mean?" the guide asked.

"The impressive number of cars. It's a flattering illustration of Ford's capacity for production."

The guide pointed out that Ford would hardly have arranged such a display since the cars were used and some of them were old. Moreover, the visitors must have already observed that there were many cars

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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in the United States. But his answer did not satisfy the Russian.

"Then to whom do they belong?"

"To the people who work at the plant and in the offices. Workers."

"You're kidding," he said, "so many cars?"

The guide explained that many of the Ford employees owned their own cars. The Russian declared that such a notion was typical propaganda. There was a way to prove it, the guide said. It would only be necessary to ask workers to whom they would talk on the assembly line whether they owned cars or not. But that would prove nothing, the Russian maintained.

"We know that old trick. The plant is well prepared for their visit. Every worker has learned by heart how to answer our questions. Unless he wants to be fired or arrested he'll have to give the proper answer."

All right, if asking them in the plant would not prove anything, why not wait until the shifts changed, and as a worker approached his car, ask him whose it was? But the Russian was only amused:

"What do you take me for?" he asked, "an idiot? It's simple to stage such a show. I don't hold Americans for bunglers. If you do something, you do it well. You are a big nation, and you know how to deal with other nations."[1]

Nothing could convince the Russian that it was not a show staged for the benefit of the visiting engineers.

Variations on this story have been told a good many times. It is sometimes told to illustrate the disparity between the material condition of Soviet workers and those in the United States. That is undoubtedly an important point, but it is not the one to be emphasized here. It may also be told to call attention to the fact that tours in the Soviet Union have for many years had a carefully arranged itinerary through areas prepared in advance to provide a good impression to visitors. This brings us somewhat nearer the point, but does not begin to comprehend all that is involved in it.

A Massive Propaganda Effort

What is involved is an attempt to grasp the impact of an idea which has had the Russian Empire in its grip for about sixty years. That impact is by no means easily understood. Our understanding of any complex development, or of anything, for that matter, is always partial and incomplete. In the best of circumstances, our vision is impaired by the limitations of the angle we are taking, by our inclination to put new wine into old bottles, i.e., to fit the new experience into the confines of what we already

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knew, and by the tendency to put the best or the worst face on a thing. But these usual obstacles to understanding are greatly augmented in the case of the Soviet Union by a massive propaganda effort and by a concerted deliberate effort to conceal the truth.

Communism has been deliberately hidden behind a facade, a more extensive facade than has ever been erected before, a facade of such dimensions that the parable with which this article begins may have actually occurred, either once or many times. That is, the Russian people are familiar with such an extensive facade that they could actually imagine that Ford Motor Company would arrange an immense spectacle of automobiles to deceive a few obscure visiting engineers.

Facade vs. Reality

There are two common ways of misinterpreting the facade. One is the obvious mistaking of the facade for the reality of communism. The literature on Soviet Communism abounds with examples of people who returned from visits to Russia and wrote favorable accounts of what they saw, accounts whose credibility depended upon accepting the facade for the whole reality. The other misinterpretation comes from those who have grasped the dimensions of the facade and perceive the gigantic hypocrisy which has produced it. Such hypocrisy, they tend to conclude, can only mean that communism is only a sham, that Communists are hypocrites hiding their lust for power behind an ideological mask.

There is a goodly amount of literature, produced mainly in the last decade or so, which offers much inferential evidence in support of this interpretation. Nonetheless, those who draw this conclusion have got the matter wrong-end-to. They are looking at the effect and are mistaking it for the cause. The facade is an effect; so are the power opportunities. The love of power resides in every breast, dormant or active; the lust for power is an effect of opportunities to wield it without let or hindrance. Communist ideology is not a mask; it is a cause. It is *the* cause which has produced the above effects. Before explaining why, how, and in what ways the facade is an effect, however, it is in order to explore the dimensions of the facade in the Soviet Union.

The Several Soviet Governmental Fronts

The government of the Soviet Union is a facade. An elaborate governmental structure exists in the Soviet Union, a structure which bears no relation to decision making and very little to the exercise of

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power. In theory, the power of government is vested in the Supreme Soviet, which is composed of a Council of the Union and a Council of Nationalities. Members are elected by universal suffrage, and more than 90 per cent of those eligible usually vote. When the Supreme Soviet is not in session, which is most of the time, its legislative functions are supposed to be performed by an executive body, called a Presidium. What could be more democratic?

Except that the Supreme Soviet is only a facade, window dressing, so to speak. It merely approves the decisions that have already been made. There is usually only one candidate for office, and he (or she) has been selected by the powers that be. In reality, there is no impact upon the government from the populace. Actual power is supposed to be wielded by the Communist Party, whose membership over the years has ranged from, say, 2 million members upwards toward 10 million. There is an elaborate structure of party organization from bottom to top which parallels that of the formal government. But the Party is not a decision making institution; it is a decision executing institution. The way it works has been described by a historian thusly (He refers to the Stalin Era, but much the same could be said for the whole period of Communist rule.):

> Huge as it was, the Communist party entrusted its authority to a Central Committee of some seventy or more. . . . Directing the labors of the Committee, and indeed of the mighty USSR as a whole, was the party *Politburo*, called the *Presidium* after 1952, usually of about sixteen men and women. This powerful, self-perpetuating institution responded in the final analysis to the will and whims of the arbitrary despot, Joseph Stalin.[2]

It should be clear, then, that the governmental structure involves not one facade but a series of facades in a row, as it were, each lower in visibility or height as it is looked at from front to back but greater in power. Popular elections are entirely facade, the most visible and the least substantial of the facades. The Supreme Soviet, the "parliament," is a front which exercises no real power. Its Presidium technically wields power, but it is actually a mechanism to be manipulated by those further behind the scenes. The Party, too, is a facade, in that it is a symbol of rather than the real source of power. Even the Politburo, or Party Presidium, has sometimes been mainly a facade, for its members have been subject to the will of the single man in charge.

The Role of the Party

Nonetheless, the Party is most important. He who can speak for the Party, i.e., lay down the Party line, rules the Soviet Union. The

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Party is not so much the base of power, though in periods when there is a contest for dominance within the Politburo it may sometimes have been, but it is always the ideological arm of power. As one man becomes dominant, his base of power becomes his control of all armed force, especially the secret police, for through them he controls all else. But all this hinges on control over the Party, which is a way of saying that it depends upon making the "correct" interpretation of ideology.

Lenin's greatest invention was of the *facade* of party rule. He did not, of course, invent party rule, for that had existed in England, say, before Karl Marx was even born. Party rule in England is a device for rule by majority, and the party claims its right to rule on the basis of popular election and ability to obtain majorities on key issues in the House of Commons.

Communists neither necessarily have nor do they claim to rule by majorities. The Communist Party is not a political party in the accepted or expected sense. It does not claim to be a *part*; it claims to be the *whole*. That is, it claims to act for all those who have any right to rule, i.e., the proletariat, the peasants, or whoever. It claims this right on the basis of ideology. It acts not by majorities but in unison and under strict discipline. The Party is a facade; the reality is ideology, and the personification of reality is the one man, and there can *only* be one man, who can set forth the correct interpretation of ideology. Every member of the Party must then accept this line or be subject to expulsion, or worse. Such party rule is now the norm in many parts of the world. It is rule by an idea.

Constitutions Used to Promote Communism

Communism operates, too, behind a cover of words. It may be that the best place to examine this facade is in the Soviet constitutions. There have been several such documents. The first was promulgated in 1918, the second in 1924, and probably the most ambitious in 1936. They are in form constitutions, in content ideological, and, in fact, facades.

In form, a constitution sets forth the power of the government, who is to exercise the powers of government, may prescribe limitations on the power, and lays down the procedures by which the government is to operate. A constitution may affirm certain rights as belonging to the people as well as those that inhere in the limitations on the government. The Soviet constitutions appear to do most of these things. They describe a governmental structure, tell how it is to operate, and set forth certain rights

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belonging to approved classes, or to the people generally.

But all this is misleading. One writer attempts to get around this fact by ascribing a different purpose to the Soviet constitution than that of traditional ones. He says, "In the Soviet Union, the Constitution . . . is regarded far more as a symbol or summary of the existing structure of government than as an immutable blueprint; it is descriptive rather than prescriptive. . . ."[3] To which it must be replied that the constitutions are not very accurate as descriptions, either, but, if they were, we would still say that something which purports to be a constitution and is not prescriptive is not a constitution.

A Class Document

The Soviet Constitutions are ideological in content. The first one was professedly a class document. "Members of the so-called exploiting classes—businessmen, monks and priests. . . , police agents of the old regime . . .—were disfranchised and denied the right to hold office." More, "The Bill of Rights was restated in class terms. Freedom of speech, of press, association, of assembly, and of access to education was to be reserved to the working class. . . ."[4] They are ideological, too, in prescribing duties as well as rights. But they are ideological in the deepest sense in that they are neither faithful descriptions of the actual situation nor enforceable prescriptions of what should be; they are formal statements of the stages in history of the Communist Revolution in Russia at particular times.

The constitutions are facades. Neither the workers, nor any other class or group enjoy freedom of speech, press, association, or religion in the Soviet Union. There are no independent powers to contain or limit the exercise of power. The Constitution of 1924 declared that the member republics had an inalienable right to secede from the Soviet Union, but, as Stalin had said, "the demand for secession . . . at the present stage of the revolution [has become] a profoundly counterrevolutionary one."[5] In short, secession was a right, but it could not be permitted. The first two constitutions did not even acknowledge the role of the Party in government. The Constitution of 1936 did ascribe a role to the Party, but it did not expose it fully. The nature of the facades erected by constitutions is well described in this summary by a scholar:

> The Soviet regime has demonstrated great skill in using the trappings of mass democracy to mask the entrenched position of the dictatorial elite which dominates Soviet society. Constitutional myths and symbols have been ingeniously adapted to contribute

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to the illusion of mass control. But the actual configurations of power in the system are difficult to conceal. The political realities of Soviet life speak the unmistakable language of one-party dictatorship in which ultimate power is deposited in a narrow ruling group in the Kremlin.[6]

Sometimes even traditional branches of the government are largely facade. So it is with the diplomatic and consular services. According to expert testimony, they serve mainly to provide intelligence information and promote espionage in foreign lands. "*Furthermore, the majority of personnel in Soviet embassies abroad are KGB* [the "regular secret police"] *and GRU* [military secret police] *employees.* The proportion of KGB staff officers to the rest of Soviet embassy personnel is usually two men out of five. GRU staff officers number one man in five."[7] There is abundant testimony, too, that even cleaning women serve as spies, and that all personnel in an embassy are subject to the control of the secret police.

The Church as a Front, Churchmen as Spies

Perhaps the strangest facade of all is that of the Orthodox Church in the Soviet Union. It is strange because the Communist Party vowed from the beginning to root out and destroy the remains of religion. The power of the government was vigorously used for many years, is still used, against religion. Party members may not be churchgoers; in general, those who have any position or status avoid the outward practice of religion. Churches, monasteries, and all sorts of religious establishment have been closed on a vast scale. Parents were forbidden to teach religion to their children. Priests and ministers have been persecuted. None of this succeeded in stifling religion in the Soviet Union. But the Communists have followed another tack, have done so more or less from the beginning. They have attempted to penetrate and subvert the churches, most notably the Orthodox Church, to use the churches, so far as possible, for their own ends.

One way the Church serves as a facade is by the hierarchy giving vocal support for the regime. Hedrick Smith says: "Patriarch Pimen and other Orthodox prelates make obligatory speeches praising Soviet policy at home and abroad. The Church donates millions of rubles to the Soviet Peace Committee and other Communist causes."[8] Another writer states the case more directly:

> The Church is subject to the guidance of the State Council for Religious Affairs, which can overrule the Patriarch (the ruling bishop) or any Church authority on any issue, religious or

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secular. The council exacts huge "contributions" from the Church treasury for various ... causes, and compels Church elders to lend their presence to state occasions, particularly large receptions in the Kremlin to which foreigners are invited.[9]

Robert G. Kaiser gives examples of how high churchmen present a facade to newsmen to conceal the actual situation. These examples came out in a press conference. The Metropolitan declared to the assembled press that "The State does not interfere with the Church." In support of his view, he proclaimed that the Church was publishing many new Bibles. As it turned out, it had published 80,000 in 20 years, 4,000 per year for from 30 to 50 million believers. Those who attended the conference were each presented with a set of long playing records which contained reproductions of the singing of much of the Church liturgy. "The state record monopoly made the album, but it has never been sold to the public. It is a special edition, made for the Church to hand out on occasions like this one."[10]

Considerable evidence has been accumulated that churchmen are often used as spies by the secret police, and that some of them may actually be members of the secret police. The Reverend Richard Wurmbrand testified in this fashion before a Congressional committee:

If you tell me that somebody is an official pastor in a Rumanian or a Russian church, I know that he is an informer of the Communist authorities. Without this, you can't be.

On Sunday you preach. On Monday you can be called to the so-called representative of the Government Council for the Affairs of the Religious Cults, and you are obliged to answer the questions: "Who has been in your church?" They don't care about these old ones. "What Youth has been in church?" "Who is a soulwinner?" If they have confessed something, "What have they confessed?" "Who is zealous in prayer?" "What are their political attitudes?"[11]

To the same effect, though much less dramatically, Kaiser says, "According to believers in Moscow, the hierarchy is riddled with agents and informers. . . ."[12] In this manner, the Communists attempt to transform the churches into a facade.

Equality for Women

Facades abound in Soviet Communism. Perhaps the most ubiquitous facade is equality. Women are supposed to be equal with men. It is supposed to be a land without special privilege, where even top Party officials receive only modest salaries. Inhabitants of rural areas are in theory equal to city dwellers. Though this facade is not well maintained, a good deal of energy goes into creating the appearance of equality. Politburo members often dress plainly and affect simple

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tastes. Yet, behind the scenes, privilege is the order of the day, indeed, there is such an intricate array of privileges that it requires considerable study to get to know them. Party members are, of course, privileged over the general citizenry. The secret police have their own special stores where they can buy goods not available to the general populace.

In one sense, women are equal to men, in the sense of working as hard as do men, or harder. One writer says that "there has appeared in the streets of Communist cities a strange creature whom people speak of as a 'working woman.' You can see her on cranes, in railroad yards, at the heaviest construction sites, in mines, on highway building jobs, etc."[13] But if she is married her "equality" surely adds to her burdens. "The chronically low level of the material sphere of life usually necessitates employment by both parties to the marriage, but the woman still has to care for her home and children. In such circumstances, the woman's life becomes in effect a kind of penal servitude of early rising, working in an office or factory from nine to five, standing in line for groceries. . . , doing the housecleaning. . . , preparing meals for her husband and children in moments of paralyzing exhaustion."[14] The facade of equality often masks a brutalizing inequality.

Privileges for Leaders

The special privileges of the leaders are at least partially hidden behind a variety of facades. Here is one brief description of how the system works:

> License plates beginning with MOC belong to members and staff of the Party's Central Committee, and illegal left turns are one of the privileges that accrue to such citizens. They come to Granovskovo Street to collect more special privileges—food and clothing sold in a special store open only to them. The store is hidden behind a door marked BUREAU OF SPECIAL PASSES. . . . Granovskovo Street is usually lined with chauffeur-driven cars waiting for their official proprietors to come out of the store. Most of the customers emerge carrying nondescript packages wrapped in brown paper.[15]

Their special privileges are much more extensive, of course, but this one example exposes the character of the facade.

There is a great difference between life in the major cities and that in small cities and rural areas. A part of the communist facade is of a modernized, industrialized land with giant hydro-electric dams, huge steel and oil industries, large mechanized state farms, clean subway systems, and so on. Hedrick Smith reported this description by a Russian of actual conditions:

> "On the stronger, larger state farms not far from Moscow or Leningrad, or

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those built for show. . . , conditions are better in every way—stone buildings, separate apartments for each working family, a sewage system, running water. This was the way it was on the first two state farms where I worked. They were each about an hour from Leningrad. But the third state farm was further out—about two hours. It was a weak farm. Wooden buildings. It lacked all conveniences. No central heating system. No sewage system. No running water. The greatest problem on all three was the lack of meat. There was almost none. As far as other food goes, the closer to Leningrad, the more the stores were selling. The further from Leningrad, the less they were selling. That was the rule. Apples you could get. But oranges, tangerines—only in Leningrad."[16]

Why all these, and other, facades? Why erect elaborate governmental structures that do not govern? Why the pretense of democracy? Why have extensive electoral campaigns when the results of the election are a foregone conclusion? Why bother to tally the votes when the electorate have no choice? Why have written constitutions when they neither inhibit those who rule nor assure any benefits to the ruled? Why would an atheist regime attempt to have a church serve as a facade? Why does the regime maintain a facade of equality when everywhere great inequities prevail? Why create model kindergartens, model state farms, model collective farms, and even model prisons, as the Soviet Union does? In short, why erect facade after facade at such tremendous effort and expense? Who are these supposed to impress?

To Impress Visitors

It is widely believed that these facades, as they are being called here, are erected mainly to impress foreigners and conceal from them Soviet reality. Undoubtedly, this is one of the reasons for which some of the facade building takes place. For example the facade of freedom of religion presented by high churchmen is clearly for foreign consumption. Surely, too, the facade of a diplomatic service which conceals alien secret police is created for its effect on foreigners. Model farms, and such like, probably have as one of their reasons for being the impression of visitors to the Soviet Union.

It has always been important to the Soviet Union, too, to create a favorable impression on foreigners (though often enough they have not succeeded in this). The communist "experiment" was first undertaken on a large scale in Russia. A Communist International was organized by Lenin to spread communism around the world. The success of this movement would surely depend, to some extent, on at least the apparent success of communism in Russia. If communism was to be

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"the wave of the future," that future would surely need to look attractive if others were to be drawn to it.

But why facades? Why not present the actuality of the Soviet Union to the world? The answer to this question is so obvious, that it may have been unnecessary to pose it: The Soviet "achievement" has not been such as would be likely to favorably impress peoples from many parts of the world. The Soviet reality, at its nether reaches, is such that it repels decent people. The Soviet Union could only take a place among the governments of the world by creating a facade of democracy, of constitutionality, and of having something like a parliamentary system. If its gangster-like actions were not concealed by facades, it would be incumbent on people generally to recognize it for what it is.

For Home Consumption, The Illusion of Success

But the facades are not just for the benefit of foreigners. They are for the inhabitants of the Soviet Union as well. How, it may be asked, can they be for the people who are unlikely to be fooled for long as to the nature of the regime and of conditions under which they live? It is possible, however, to be impressed by facades even if one is not misled by them. Millions of Americans have been thrilled, and horrified, by films about catastrophes even though they know they are not witnessing actual catastrophes. It is impressive that the Communist Party can garner an almost unanimous vote from the Russian electorate, even though the election is rigged, so to speak. The creation of such elaborate and extensive facades may be a more impressive demonstration of power than would the feeding of the poor, say.

But these explanations are surface explanations. Underlying them are deeper reasons which account for the continued, prolific, and pervasive facades. Communism is a deception. Efforts to impose it can only be maintained by erecting facade after facade. Facade is the natural fruit of deception. Communist ideology cannot produce the freedom that it proclaims, the democracy that it claims, the concerted effort that it seeks, nor the transformed man that it wills. Marxian ideology, on which it is based, is a kind of poetic vision of man, society, economics, and life which does not now, never did, and there is no reason to believe ever will, exist. All the efforts to bring it into being result in something quite different from what is sought. It is only possible to create illusions that it works; these illusions we can experience as facades.

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A Conspiracy

Communism is not basically a social system, an economic system, or even a political system; it is basically a *conspiracy.* It evinces itself to the world as a conspiracy to gain, hold, and wield power to effect a great transformation. But in its inwards, so to speak, it is a conspiracy to deceive and an agreement to be deceived. It is, I say, a deception. Who does it deceive? The answer is this: *Communism is a conspiracy to deceive all who need to be deceived by it.* All who accept it, work to apply it, aid it in any way, or on whom it is being imposed, need to be deceived. Even those most deeply involved in creating the deception need to be deceived. Indeed, they have the greatest need to be deceived, because they have the greatest need to believe in it.

The members of the Politburo, or Presidium, have the greatest need to be deceived. They stand at the pinnacle of power in the Soviet Union because they are the ones charged with the task and who are supposed to know how to usher in communism. That it can be achieved is essential to their hold on power and position. They need to believe that they are concerting all effort toward achieving their goals. They need to believe that the workers, peasants, and intellectuals are solidly behind them. They need to believe that religion is dying out, that the young are committed to communism, and that communism is conferring great benefits on the people. They need to believe, above all, that socialism works and that they are approaching the final stage of communism.

Fooling the Leaders

A situation is created for the top men that enables them very nearly to believe all this. This is the role of the special privileges which they enjoy. They live in and around Moscow which has the best of everything in Russia. And they have the best of the best: the finest cars, the most exclusive dachas, the choicest foods, the most sumptuous beach houses in the Crimea, and fly in the most modern of jet planes. As Kaiser observes, "Privileges insulate those at the very top, a tiny group of perhaps only two or three dozen men, from all the harassments and discomforts of an ordinary citizen's life." "In sum," he says, "they live in a contrived environment. Even their vodka is better than the ordinary man's."[17]

But there is much more to their contrived environment than these special privileges. In a sense, most Russians are engaged in a giant conspiracy to prove that socialism, or communism, works. The quotas of production that are supposed to be filled are a part of that unwitting conspiracy. (Even prisoners in slave

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labor camps learned to exaggerate their output in order to survive.) The shoddy goods which are produced to fill quotas promote the conspiracy, for on the statistical sheets viewed by the Politburo they are not described as shoddy. The whole massive propaganda program enables those who will to believe in communism.

Fooling the World

The need to be deceived spreads outward from the Politburo in concentric circles to reach finally to the whole world. The members of the Party in the Soviet Union need to be deceived, even as they are contriving to bring off the deception. Communist parties around the world need to be deceived. "Fellow-travelers" of the communist movement around the world need to be deceived. Indeed, all who wish to be need to be deceived, and all who will make sufficient effort can be. The whole paraphernalia of facades exists to assist them in the effort.

Whether or not the deceivers are actually deceived by their deceptions is somewhat beside the point. The point is that such a fabric of deception is created, entailing a vast conspiracy to bring it off, that reality is sufficiently distorted so as to make it difficult to determine what is real and what not. When the truth is sufficiently distorted and obscured, men may believe what they wish. The purpose of the deception is adequately achieved when those who need to believe are enabled to do so by it. There is a human tendency, communism aside, for men to believe what they want to believe. There is an even stronger tendency for men to believe what they have a strong need to believe.

Widespread Deception, Widespread Cynicism

Communists have built facade upon facade in the Soviet Union to assist any who will, and all who need to, to believe that communism works and is the wave of the future. Of course, one of the results of such widespread deception may be an equally widespread cynicism. The Soviet engineers, in the anecdote which opens this article, could not believe that the huge number of automobiles outside the Ford plant had not been assembled just to impress them. This meant also, of course, that they did not believe many of the spectacles created in the Soviet Union. But they pretend to believe them when they are at home, which may be almost as useful as actually believing. Such pretense undoubtedly degrades them, but degraded men are essential to corrupt systems. The success of the facades depends upon a conspiracy of degraded men.

Behind the facades, however, is a

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grim and brutal reality. It is the reality of terror on which the power of the rulers of the Soviet Union rests, a terror so extensive that for many years those who tried to tell the world of it were not believed.

Next: *7. The Reign of Terror.*

—FOOTNOTES—

[1]Leopold Tyrmand, *Notebooks of a Dilettante* (New York: Macmillan, 1970), pp. 85-87.

[2]Arthur J. May, *Europe Since 1939* (New York: Holt, Rinehart and Winston, 1966), p. 193.

[3]Alfred G. Meyer, *The Soviet Political System* (New York: Random House, 1965), p. 199.

[4]Merle Fainsod, *How Russia is Ruled* (Cambridge: Harvard University Press, 1963), p. 353.

[5]*Ibid.*, p. 367.

[6]*Ibid.*, pp. 384-85.

[7]Oleg Penkovskiy, *The Penkovskiy Papers* (Garden City, N.Y.: Doubleday, 1965), p. 66.

[8]Hedrick Smith, *The Russians* (New York: Quadrangle, 1976), p. 436.

[9]Robert G. Kaiser, *Russia* (New York: Atheneum, 1976), p. 105.

[10]*Ibid.*, p. 106.

[11]*Hearing*, House Committee on Un-American Activities, August 10, 1967 (Washington: U.S. Government Printing Office, 1967), p. 535.

[12]Kaiser, *op. cit.*, p. 105.

[13]Leopold Tyrmand, *The Rosa Luxemburg Contraceptive Cooperative* (New York: Macmillan, 1972), p. 80.

[14]*Ibid.*, pp. 82-83.

[15]Kaiser, *op. cit.*, p. 176.

[16]Smith, *op. cit.*, p. 204.

[17]Kaiser, *op. cit.*, pp. 177-78.

IDEAS ON LIBERTY

The Main Issue

THE MAIN ISSUE in present-day political struggles is whether society should be organized on the basis of private ownership of the means of production (capitalism, the market system) or on the basis of public control of the means of production (socialism, communism, planned economy). Capitalism means free enterprise, sovereignty of the consumers in economic matters, and sovereignty of the voters in political matters. Socialism means full government control of every sphere of the individual's life and the unrestricted supremacy of the government in its capacity as central board of production management. There is no compromise possible between these two systems. Contrary to a popular fallacy there is no middle way, no third system possible as a pattern of a permanent social order. The citizens must chose between capitalism and socialism or, as many Americans say, between the American and the Russian way of life.

LUDWIG VON MISES, *Bureaucracy*

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THE INHERENT INEFFICIENCY of GOVERNMENT BUREAUCRACY

Allan C. Brownfeld

THERE are few who will disagree with the fact that, in recent years, the governmental bureaucracy has grown dramatically while its efficiency has deteriorated in an equally dramatic manner.

The data is instructive with regard to this state of affairs. In the twenty years between 1952 and 1972 the nondefense government payroll jumped 117 per cent. At the present time, there is one government employee in domestic services for every 5.5 workers in private employment, with a ratio of 1:9.3 twenty years ago. More individuals were added to government service in these twenty years than in the preceding 163 years since the founding of the United States.

From 1952 to 1972, the cost of the public payroll multiplied more than fourfold, from $35 billion to $150 billion. The 330 per cent increase over that period exceeds the 247 per cent growth of employee compensation in private industries ($161 billion to $557 billion). In 1952, the average worker in private employment earned 5 per cent more than his counterpart in government. By 1972, he had fallen 10 per cent behind.[1]

The growth of the government bureaucracy has been accompanied by a decrease in its rate of efficiency. Consider several examples.

Employment in the Department of Agriculture went up 47 per cent between 1952 and 1972 (78,000 to 115,000) although the number of farms in the U.S. dropped by 45 per cent (from 5.2 million to 2.9 million) and the farm population shrank 56 per cent (from 21.7 million to 9.6

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[1]These and other statistics that follow are from *The Growth of American Government* by Roger A. Freeman (Stanford, California: Hoover Institution Press, 1975).

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million). More significantly, the cost of stabilization of farm prices and incomes multiplied seven times in this twenty-year period—from $689 million to $4,243 million.

In the Internal Revenue Service, the staff grew 28 per cent between 1952 and 1972 (56,336 to 72,085), almost parallel to the number of tax returns filed, which increased 26 per cent, from 89 million to 112 million. Yet, the number of tax returns per employee dropped from 1580 to 1554, even though during this same period the I.R.S. underwent its most intensive computerization and mechanization. At the same time, audits declined from 4.4 million to 1.7 million and delinquent notices from 19.8 million to 8.8 million.

Trends in Public Education

In the field of public education, enrollment almost doubled between 1952 and 1972 while the number of teachers and other school employees tripled. In 1952, there was one employee for every 14.8 students, while in 1972 there was one for every 9.2. Comparing the trends in public education and in other areas, Professor Roger Freeman notes that, "Trends in public education and in the American economy generally have been running in opposite directions. While throughout most of industry and agriculture, employee productivity, that is, the ratio between manpower input and product output, has increased consistently and substantially, it has just as consistently and sharply declined in public education."

The fact is that there seems to be a decline in American educational standards just as the expenditure of money and the number of personnel have dramatically increased. Results of scholastic aptitude test scores show a decline in almost every knowledge and skill area.

In yet another area of public employment, police protection, we find precisely the same trend. During the 1952-1972 period there was an increase of 129 per cent in the number of employees while the U.S. population expanded only 33 per cent. There were 1.6 police employees per 1,000 population in 1952 and 2.8 in 1972. Despite this increased ratio of protection, crime did not decrease—it increased. Between 1957 and 1972, the U.S. population grew 22 per cent, the number of police employees increased 84 per cent—nearly four times faster—while the estimated number of crimes jumped 309 per cent, from 1.4 million to 5.9 million.

These examples are, of course, only skimming the surface of the available material. A look at the regulatory agencies—the Civil Aeronautics Board, the Interstate Commerce Commission, the Food and Drug Administration, and the

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like—will bring us to the same conclusion. So will a look at the U.S. Postal Service and, unfortunately, at almost every other U.S. governmental agency—including the Department of Defense.

Reasons for Inefficiency

There are some who look at this data, which is difficult to dispute in itself, and argue that the bureaucracy needs to be reorganized, supervised in a better manner, be made more responsive to the people, and so on. The proposition they seem to accept is that bureaucracy is not necessarily inefficient and uneconomical in itself, but can be corrected. The more legitimate conclusion to be drawn from the data, however, is that it is governmental bureaucracy which is inherently inefficient—and for a number of very good reasons.

That we are faced with gross inefficiency is clear. In a review of recent academic studies of government bureaucracy in *The Public Administration Review* (March-April, 1974), Kenneth F. Warren concludes: "The authors' consensus, with Mainzer dissenting, is that American bureaucracy is guilty of gross mismanagement of the public interest. The real accountability crisis is that even if our bureaucrats act inefficiently and against our interests, as is too often the case, we cannot realistically hope for administrative abuses to be checked by the present 'watchdog' system."

Similarly, in the book, *Democracy and the Public Service,* Frederick C. Mosher found that professionalism in governmental bureaucracy and the power of the civil service pose a distinct threat to democratic control; that is, they are self-serving rather than serving the public interest. In another study, Richard S. Rosenbloom, in the *Harvard Business Review* (September-October, 1973), noted that, "The largest employee group in the U.S. has shown the least concern for worker productivity. This seems absurd in a society that prides itself on management and efficiency, but the fact appears to be indisputable. . . . Not only is productivity in these groups lagging, but little is being done about it . . . One is less surprised at the absence of evident productivity growth in government when it is recognized that none of the major forces operating in the private sector applies in government."

The fact which must be remembered is that inefficiency is by no means an accident in public enterprise but is built into such noncompetitive endeavor. In his important book, *The Growth Of American Government,* Dr. Roger Freeman makes this point: "We must recognize that, in contrast to private industry, where competi-

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tion and the profit motive impose pressure for greater efficiency and a natural and generally reliable gauge of productivity, governmental programs have built-in counterproductive trends. It is a natural tendency for a public employee to want to handle fewer cases—pupils, tax returns, welfare families, crimes—in the belief that he could do a better job if he had a smaller workload, and most certainly have an easier life. For the supervisor there is a definite gain in stature, position—and even grade—by having a larger number of subordinates. This and the ideological commitments to the program goals and methods of their professional fraternities provide a powerful and well-nigh irresistible incentive for empire building."

The Direct Beneficiaries

Government programs are so structured that the incentive is never to solve whatever problem is being dealt with—but to see to it that it is exacerbated, and that more money becomes necessary to fight it. In the so-called "War On Poverty," for example, programs were not designed to give money to the poor, whatever the merits of that would have been, but, instead, to give money to people who were to provide "services" to the poor.

The result has been that the only poverty such legislation corrected was that of its own employees. Today, many thousands of well-organized individuals and groups have a vested interest in the continuation of many otherwise useless and costly programs. This is the "Education-Poverty-Social Worker" complex discussed by many who do care about the poor.

The cost of Medicaid, which is only one of many such costly programs, is now approaching $15 billion annually, more than triple the cost in 1970. The beneficiaries, largely, are not the poor, but the ever-growing number of professionals who receive the money. The incentive is to spend as much as possible, not as little. The poor are simply pawns in someone else's game. The same is true of urban renewal, job training, and a host of other bureaucratic programs. The poor are not helped—and are often harmed—while the building contractors and "job trainers" get rich with public funds. "Poverty," as *Barron's* correspondent Shirley Scheibla has said, "is where the money is."

Child Care

The same is true with Federally sponsored child development and day care centers. The motivation for such programs is not the idea that the poor need help. It is, instead, the notion that the government is better equipped to take care of children than are their

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parents—a presumption which flies in the face of most medical evidence.

Dr. John Bowlby, a distinguished British physician, has done extensive study on the effect of material deprivation, entitled "Maternal Care and Mental Health." His conclusion: "It is plain that, when deprived of maternal care, the child's development is almost always retarded—physically, intellectually, and socially—and that symptoms of physical and mental illness may appear." This conclusion is corroborated by Dr. Jack Raskin, director of the Seattle Children's Orthopedic Hospital Psychiatry Service: "There is no good substitute for the mother's presence. The best day care center in the world cannot begin to compete in this regard with the average mother."

Whether we turn to medical care, housing, jobs or day care, the presumption of those who urge expensive government programs is always that government is best equipped to efficiently deal with the problem. In fact, the idea of social programs to help people to help themselves has itself come to an end. Now, we seem content to place whole classes of people upon welfare or some other form of public support, with little concern about their long-run well-being or the well-being of society as a whole. Unfortunately, a class of people—government bureaucrats and those hired by government—profits from such a system. Professor Aaron Wildavsky summarized the situation: "Middle class civil servants hired upper class student radicals to use lower class Negroes as a battering ram against the existing local political system." In his book, *In Our Time,* Eric Hoffer points out that, "Those in charge were less interested in healing and conciliating the weak than in aggravating their illness and sharpening their grievances. Thus, by a perverted dialectic, our wholehearted effort to right wrongs was shown to be proof not of our concern for righteousness but of our present and past incurable wrongness."

A War to Lose

Unfortunately, those who instituted the War on Poverty had a vested interest in losing it. If poverty were ever to come to an end, so would their jobs. The incentives in almost all such government programs are negative—for, if they were positive, those carrying out the work would find themselves, before too long, unemployed. That is why, as was indicated earlier, the number of employees at the Department of Agriculture increases each year—while the number of farmers declines.

We have thus come to the point where the real constituency of

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government's expensive social programs are the bureaucrats themselves. Former Senator James Buckley notes that, "We must count not just the numbers of intended beneficiaries, but the enormous influence and wealth of the interests that are their indirect beneficiaries—interests that can play an extraordinarily persuasive role in defining the areas of 'compassion' they are called upon to service."

Ludwig von Mises on the Nature of Bureaucracy

The evidence is persuasive that government bureaucracy is inherently inefficient precisely because it is not faced with any of the forces which make private business management its opposite. This point has been made frequently. In his book, *Bureaucracy,* Ludwig von Mises goes to some length to explain it. He declared that, "It is a widespread illusion that the efficiency of government bureaus could be improved by management engineers and their methods of scientific management. . . . What they call deficiencies and faults of the management of administrative agencies are necessary properties. A bureau is not a profit-seeking enterprise; it cannot make use of any economic calculation. . . . It is out of the question to improve its management by reshaping it according to the pattern of private business."

To those well-meaning but ill-informed observers of bureaucratic inefficiency, Von Mises addressed this message: "No reform can remove the bureaucratic features of the government's bureaus. It is useless to blame them for their slowness and slackness. It is vain to lament over the fact that the assiduity, carefulness, and painstaking work of the average bureau clerk are, as a rule, below those of the average worker in private business . . . In the absence of an unquestionable yardstick of success and failure it is almost impossible for the vast majority of men to find that incentive to utmost exertion that the money calculus of profit-seeking business easily provides. . . . All such deficiencies are inherent in the performance of services which cannot be checked by money statements of profit and loss."

The Reorganization Snare

It is high time that those speaking of governmental "reorganization" understand that this is not, in the long run, the proper manner in which to approach the question of an ever-increasing and increasingly expensive and inefficient governmental bureaucracy. In an important article, Rowland Egger, writing for the National Tax Associa-

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tion, discussed the whole notion of "administrative reorganization." He provided this assessment: "The attempt to sell administrative reorganization legislation on the basis of tax reduction, however honorable the motives and however laudable the hopes of those who support administrative reorganization for this reason, is a snare and a delusion.... Administrative reorganization never saved large sums of money.... The plain fact is that the only way to save significant sums of money in the federal establishment is to eliminate activities and reduce the scale of operations.... There is no royal road, no painless way, to government economy."

A projection of governmental employment trends to the year 2000 would show that government employees totaled 16.2 million in 1972 and had increased 124 per cent in nondefense positions in the preceding twenty years. If these trends were to continue for the balance of the century, defense employment would fall an additional 1.3 million to 2.2 million, while all other governmental employment would triple from 12.7 million to 39 million for an aggregate of 41 million in the year 2000. The entire labor force has been projected to rise from 89 million in 1972 to 112.6 million in 1990. It could reach or exceed 120 million by the year 2000. Assuming that 94 per cent of the labor force were then employed, there would be 113 million jobholders of whom, according to these projections, 41 million, or 36 per cent, would be in government.

The Trends Projected: All Government!

Professor C. Northcote Parkinson in 1958 calculated that if the trend in Britain's public employment were to continue at the prevailing rate, everyone in Britain would be working for the government by the year 2195. In 1971, New York's Morgan Guaranty Trust Company applied the same idea to the U.S. and found that if things continued at the present rate, every American would be on the public payroll by 2049—a century and a half sooner than in Britain.

The illusion that bureaucratic inefficiency can be corrected should come to a rapid end. Such inefficiency is inherent in public enterprise. Once this premise is accepted, it will rapidly be seen that the only form of government reorganization which will be effective is to reduce government itself. Whatever the reformers of bureaucracy may tell us, the inefficiency of the bureaucrats is no accident.

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Transport Deregulation: *An Economic Necessity*

John Semmens

IT HAS BEEN SAID that change is the only constant in an age of continual upheaval and, hopefully, progress. The pace of change has been accelerating to the point where there is talk of "future shock." Yet, in the face of this dynamic environment we are presented with the hoary old institutions of a previous era as a means of managing and allocating a very vital service.

In some circles it is maintained that railroads as a private entity are *passé,* that railroading is no longer a viable business venture. But the need to transport bulk goods from their source to their ultimate users still exists. Railroads would appear to offer a convenient and inexpensive method of moving these goods. Thus the stage is set for a profitable enterprise. Simultaneously, however, railroads face bankruptcy and are threatened with imminent government take-over. What is the problem?

The problem would seem to be the environment in which the railroads must operate. Under the rules devised by the slow-moving Interstate Commerce Commission, productivity is sacrificed to other goals. Technological innovations are discouraged in order not to harm other firms, and excess capacity is mandated to serve negligible demand. The managements of the various railroad firms are expending a large portion of their efforts in hassling with the regulations and the regulators. This is not the most efficacious use of the resources involved.

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How and why did this set of circumstances arise? Whether one is partial to the traditional interpretation of the origins of rail regulation as a response to the evils of monopolistic robber barons or the revisionist theory of big business complicity in the establishment of an industry-controlled I.C.C., the fact remains that the concept of regulation is static in nature. It seeks to preserve, maintain, or capture in some way an ideal set of relationships between the providers and users of a given service. It is essentially backward looking and dominated by the myth of a golden age that, like all utopian visions, is inflexible to changing times, needs, and circumstances. No sooner are the regulations laid down than they are obsolete in some small way. Over time the obsolescence proceeds to the point of absurdity, the result being massive misallocation of resources and waste, as in the case of the I.C.C.'s regulation of the transportation industry.

Some criticism of regulatory commissions has been made on the grounds that such bodies are the repositories of political hacks, washed up bureaucrats, and shyster lawyers. But the deficiencies of regulation are more endemic to the system than can be resolved by simply choosing better regulators. The selection of the new regulators and, more importantly, the elements affecting the performance of a largely illogical and unfeasible task would be subject to the same pressures that shape the current situation. These pressures lie in the fact that government is an agency charged with administration of "justice"—an ill-defined commodity at best, subject to diverse political interpretations. In contrast, the provision of services to a consuming public is a question of economics—a field where efficiency in the allocation and consumption of scarce resources is of paramount importance. Justice and efficiency do not always coincide, especially since "justice" may often be in the eye of the beholder.

The I.C.C., in conformity to the governmental procedures designed to produce justice, or some approximation of the current interpretation of what this means, takes on a quasi-judicial character. The proceedings are basically adversary in nature with the same time-consuming attention to detail as the court system with similar results. In the end the attempt to hear *all* participants and to balance *all* their interests is not very likely to produce a policy geared to the most efficient utilization of limited resources to meet insatiable desires.

Waste Not, Want Not

The burdens of regulatory policy are more than just aggravation

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with delay. The costs have been and will continue to be substantial. The prices that the consumer must pay for the bloated bureaucracy that administers regulatory policy, for the inefficient use of current resources and for the misallocation of investment, are very real and very large. The filing of reports—114 million different varieties for the federal government alone—by itself is estimated at $40 billion per year. This does not include the resources consumed by the government in processing the reports. Both costs, of course, are passed along to the consumer/taxpayer. There is no one else to pay them.

The resources consumed in this production of paper are not available to help satisfy other wants in our society, of which there are plenty. But the economic losses extend beyond the immediate out-of-pocket costs for the grinding out of official documents. The price-fixing edicts of the I.C.C. have ripple effects that extend to the immediate waste of time and energy, to the depletion of reserves, to malinvestment, to massive misplacement of populations, urban blight, and environmental degradation.

Estimates of the direct costs of waste in transportation vary from a low of $4 billion to a high of $16 billion per year. The rat hole into which this money is poured consists of: (1) the inefficient use of truck transportation—possibly as much as 40 per cent of truck miles are driven empty of cargo due in large part to I.C.C. rules restricting entry into various markets, and this does not include the wasted circuitous miles that must be driven under absurd "gateway"[1] rules, (2) the inefficient use of rail transportation—compulsory service on low-volume, short haul lines constitutes a major portion of waste in underutilized capital investment; (3) the diversion of traffic from rails to roads—I.C.C. price fixing designed to protect the trucking industry prohibits railroads from lowering fares to take advantage of their lower costs.

Senseless Waste

How can this waste possibly be justified? What's the point of all this regulatory nonsense? Who benefits by such policies? Ostensibly, the whole process is designed to protect the public from the evils of a nonregulated environment. Yet, economists have for the most part conceded that there are no net aggregate benefits of the regulatory scheme in transportation. The consumer ends up poorer with an annual dead loss of billions of dollars. Those who do gain by the regulations do so at the expense of

[1]Gateway rules require a carrier to travel over specified routes regardless of the origin or destination of the freight.

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everyone else. Surface shippers other than railroads have been vociferous advocates of the status quo. Water carriers have the benefit of publicly maintained rivers and canals for which they pay no use fees. Highway freight haulers holding "certificates of public convenience" have the benefit of publicly maintained roads for which they are paying less than their share of the costs.[2]

The net effect of the transportation policies of the I.C.C., then, is to transfer wealth from the general public to the trucking and water carrier industries. In addition there are certain depletions of natural resources—trucks use four times as much fuel to move the same weight of goods the same distance as railroads—and degradations of the environment via the production of extra air pollutants by the less efficient trucks. All of this is presumably justified as "socially beneficial," as a necessary price to pay for the preservation of "fair" competition in transportation.

What advocates of this position fail to comprehend is that serving human needs is not a game—it is a serious business of survival. The objective is not to give selected participants in the provision of services a chance to "win," but rather to maximize the satisfactions that can be gotten from a finite supply of resources. The economic environment by its very nature is prone to "unfair" competition; some firms can attain significant advantages in cost reduction over their rivals. Such a sequence of events is known as progress. In short, the painstakingly constructed vision of "fair" competition upheld by the I.C.C. is essentially arbitrary and based on the fallacious belief that all substantive developments in the technology of transportation have already taken place. Policies based on such a vision insure stagnation and flirt dangerously with disaster.

Estimates of the direct costs of waste in transportation vary from a low of $4 billion to a high of $16 billion per year.

Rude Awakening

The elements of waste that we have described thus far may be just the tip of the iceberg in terms of the massive distortions programmed into our economy via the uneconomic pricing of transportation. There is no gainsaying that millions of business decisions affecting virtually every aspect of our material well-being have been influenced to some

[2] In 1969, the Federal Highway Administration estimated that truckers users' fees were $219 million less than the costs attributable to their use.

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degree by the irrational pricing system of transportation regulation. The attempt to circumvent reality has thrown an element of miscalculation into a multitude of investment choices. When the illusions can be maintained no longer, the dream world will end and, like it or not, we will experience a rude awakening.

This rude awakening will come in the form of rapid transformation of capital assets into malinvestments. Malinvestment occurs when resources cast in the form of nonliquid capital goods can no longer produce values to justify their cost. Such assets, consisting of buildings, roads, machinery, and the like, cannot be fully converted to alternate uses. Much of the materials and all of the effort invested in their original creation become total write-offs. More than a century of mistaken transportation policy has influenced the business decisions that have shaped the contemporary environment. So the fantasy world of idyllic "fair" competition becomes more difficult to maintain, the necessity for readjustment edges nearer. The prospective pain of the readjustment produces more frantic, more absurd efforts to forestall the inevitable. Examination of the scope of the malinvestment will clarify the impending dislocations.

The attempt to impute a uniform cost for transportation by the mile has led to an undercosting of the disadvantages of remote location. Low density, remote areas have received enormous subsidies in terms of highway construction and the maintenance of underutilized rail outlets over an extended period of time. Meanwhile, centrally located urban areas have lost a portion of this advantage as the excess charges on shipments to these points have been used to subsidize losing routes. This process, while not the total cause, has facilitated the exodus from the city.

A Dispersed Population

This dispersal of population and industry has had its part in the creation of some familiar contemporary phenomena. Most notably these have included urban decay through the loss of the tax base, traffic jams and automobile pollution via the subsidized roadways, and a bland homogenizing of life style as more and more every place is becoming like every other place. Perhaps such consequences are desirable from a social benefit standpoint, but they are unrealistic from an economic standpoint and cannot be sustained indefinitely.

Dispersal of population to more remote areas has raised the transportation costs of the nation both in the form of accelerated consumption of energy to move goods across

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greater distances and in the establishment of excess capacity in low utilization of rail and highway facilities. At the same time, the price for the use of these resources consumed has been held below a market level. Admittedly, the I.C.C. has only been one participant in the process; fuel price lids and overbuilding/undercharging in the highway construction program have played important roles as well. The classic effects of such a policy are portrayed in any elementary text on economics. Artificial shortages are created as demand spurred on by the low price outstrips supply deterred by the poor returns.

Where Do We Go From Here?

In spite of the serious problems fostered within the regulated transportation industry, few proponents of remedial action are prepared to adopt a rational approach. Proposals tend to fall into one of two categories. First, there are the faint-hearted advocates of reform of the existing system. These "patch and smooth-over" plans seem oblivious to the critical defects of the existing regulatory process—the result of political maneuvering in complete ignorance of basic economics. Such plans include the current Amtrak system which still runs large deficits even after being relieved of substantial fixed costs for right-of-way maintenance. Likewise, a recent proposal to finance Conrail and other railroad subsidies via a two cent increase in the tax paid for fuel by trucks, trains, barges, and aircraft is bereft of economic logic. All such plans seek to elude or subvert economic laws of supply and demand. Consequently, they can only serve to worsen the problem.

> More than a century of mistaken transportation policy has influenced the business decisions that have shaped the contemporary environment.

A second line of reasoning arrives at the conclusion that since railroading is a "sick" industry it ought to be nationalized and run by the government. Subjecting even a healthy industry to the quack medications of nationalization would be likely to produce a terminal illness. To advocate this prescription for an industry already suffering from the ministrations of regulation is the equivalent of treating anemia by bleeding the patient. Government enterprise in this country has been marked by the twin evils of deteriorating service and rising costs. The subsidies applied to keep these enterprises operating serve only to increase the market distortion by siphoning off resources from successful satisfiers of consumer needs

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in order to reward waste and inefficiency.

Plans formulated to negate the verdicts of market action rest firmly on two outstanding fallacies. First, that government experts can determine the needs of consumers better than can the consumers themselves. Losses experienced under policies based on this fallacy are then blamed on the consumers who failed to recognize the "needs" they neglected in order to satisfy some other "whims" of their own. Second, that the primary economic problem of society is distribution. The problem of production has been solved, proponents claim, yet "social needs" go begging because the distribution system is flawed by its reliance upon prior production as the source of claims upon economic resources.

Unfortunately, the problem of production has not been solved. Resources are not inexhaustible and effort is required to meet material needs. This is as true of the provision of transportation as of any other economic good. If we are going to channel scarce resources into the "social need" to maintain unused rail lines and drive empty trucks on circuitous routes over expensive highways, then we are going to be channeling these scarce resources away from other needs. Scarcity, page one in the fundamentals of economics, is the reality.

A Plan For All Seasons

Given that scarcity is a fact of life, how are we to make the most of what we have? Utilization of the profit incentive has provided substantial achievements in loosening the bonds of scarcity. True, it is not the only motivating force conceivable, but it has, to date, proven more effective than its next most frequently used substitute—fear of punishment. Application of the profit incentive to the issue of transportation policy suggests that the most effective long-range plan is deregulation.

Deregulation would maximize the flexibility of the transportation system to adapt to consumer demand. At the same time costs could be expected to decline as the necessity to operate at a profit, or at least break even, forces the inefficient out of the business. Among the benefits to be anticipated would be the elimination of red tape and delay in adjusting rates and routes to consumer needs, the elimination of bureaucratic costs incurred in the futile attempt to regulate a complex industry in a dynamic environment, the reduction of waste as noneconomic services are trimmed back totally or to self-supporting levels, and an improved atmosphere for innovation and progress as efficiency translates into corporate profits.

With all these beneficial prospects, it is still considered im-

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probable that deregulation will enjoy much support in policy making circles. Among the reasons frequently cited are the sunk costs of current operators in the truck and barge industries. It is generally conceded that railroads would stand to be net gainers in traffic if allowed to compete on the basis of price. Thus, barge and truck owners whose profits are predicated to a degree on present prohibitions of rail competition stand to lose some of their revenues. However, such an argument based on protecting the interests of these firms cannot justify the perpetuation of waste which the consumer must subsidize.

A second line of reasoning asserts that "the public" demands the continuation of uneconomic services. This is inherently contradictory, for if the public demanded[3] a service it would be provided without government compulsion. What this line of thought is leading to is that there may be some individuals who would like to have the benefits of a service without being willing or able to pay the going price. Resolution of this disparity between desires and means through the provision of certain services in-kind, like subsidized Amtrak traffic, is plagued with several critical defects.

> In spite of the serious problems fostered within the regulated transportation industry, few proponents of remedial action are prepared to adopt a rational approach.

First, policy makers have no way of knowing what the actual demand for a given service might be as they tamper with the market.

Second, as the outlay of expenditures are awarded to one industry after another the lobbying for such subsidies becomes more intense. At the same time, allocation of scarce capital becomes distorted as uneconomic enterprises take on positive returns on investment, thus diverting funds from other businesses that may have offered services to more urgent needs.

Finally, as a welfare scheme for those unable to meet the market price, it is woefully inept. The selection of services to be provided is arbitrary and the benefits unevenly distributed amongst rich and poor alike. So, if concern for those too poor to afford the market prices of any goods or services is our object,

[3] In economic terms, demand involves two factors: (1) that a consumer is willing to buy and (2) that he is able to buy. If either of these factors is absent, demand does not exist. For example, if a service is selling for $100 any given consumer may not exert demand if (1) he feels the price is too high—lack of willingness to purchase, or (2) he doesn't have the money—lack of ability to purchase.

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an income maintenance program would seem more to the point. Beyond this, the claim that "the public" demands uneconomic services is without merit—the result of naivete or cynical manipulation of public policy for personal gain.

Chaos or Monopoly Expected in Absence of Regulation

A third, and more serious, argument against deregulation concerns the notion that regulation is all that stands between a vulnerable public and chaos or monopoly in the transportation industry. What constitutes chaos may be a matter of individual perception. For sure, unregulated markets are subject to a greater degree of fluctuation, but this is evidence of one of their prime advantages—the ability to adapt quickly to a dynamic environment. This adaptability is more in tune with the real world than the measured deliberateness of regulatory tribunals whose actions are often obsolete before they are ever enacted. In fact, the major part of our economy is still dominated by transactions in which the government plays no direct part in determining prices or market shares of the participants.

The argument from chaos or monopoly has to hinge on the assumption that transportation is different in some significant way from other industries. This assumption is that transportation is a "natural monopoly" or is prone to monopoly. The reasoning has a certain amount of plausibility. After all, only one set of railroad tracks can occupy a given space. Competitive parallel tracks would, on first examination, appear redundant and wasteful. But everything enjoys a monopoly of some space or other since no two things can exist in the same space at the same time. On first examination, competition in any endeavor might appear redundant. Yet, we don't ordinarily view it as such. The fact of the matter is that any freely operating market is infested simultaneously with examples of monopolies as well as competitors.

Perhaps the claim of monopoly is based upon the type of service offered by transportation. The consumed product in this case is place value. What the purchaser seeks is to transport himself or goods to another location. With this as his objective, though, it would appear that there are a number of different ways to accomplish the end desired. It is difficult to conceive of a circumstance where one transportation company would enjoy a complete monopoly of the means of transport between any two locations. In the final analysis one could always walk and hand carry goods to new locales—the universal method that pre-dates all moder-

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nization of transport from the domestication of beasts of burden to the development of interplanetary travel. What people are carelessly calling monopoly, then, is something else. Based on comparative advantage between modes, one transportation firm may be the mode of preference for all or substantially all traffic between two points.

Conditions Vary

Comparative advantage is not unidirectional. At times and for various reasons, trains may be preferred to trucks or vice versa. It would be normal for specialization to develop to the point where the preferred mode enjoys substantial advantages over any alternative. For example, it seems reasonable that rails would be the most feasible means of moving copper ore out of a pit mine in Arizona. Does this constitute monopoly? Would the copper producer be "at the mercy" of the railroad owning a single track to the mine?

Effectively the answer is no. We no longer live in an age where giant business organizations are dominated by single personalities directing corporate policies on individual whim. The depersonalization of the business enterprise does have its beneficial effects. Roadbeds are an expensive asset. Unused, they deteriorate over time due primarily to weather. Unlike a hundred years ago, railroads can no longer expect to extract preferential treatment from the government. Gone are the days of massive land grants as a source of Federal subsidy. Railroads today must make the best use of their assets. It is in their interests to maximize the rate of return on their capital. This cannot be accomplished by shortsighted attempts to charge the absolutely highest rate possible.

> Application of the profit incentive to the issue of transportation policy suggests that the most effective long-range plan is deregulation.

Low Volume Hurts

Since the assets depreciate whether used or not, low utilization of railways penalizes the railroad in the same way that high vacancy rates penalize the owners of rental space. The copper mine has to maintain its own rate of return on investment lest they run themselves out of business by giving away a depletable asset. The amount that it can and will pay for shipment of ore is limited by the constraint to achieve a minimum return on assets. Should the circumstances of low ore prices or high transport

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costs or some other factor reduce the rate of return below an acceptable level, the traffic on the rail lines could well fall to zero—wiping out the stream of revenues flowing from that rail asset. The railroad's asset will depreciate more rapidly through lack of use than the mine's major asset. Ore can be stored in the ground where it's been buried for millions of years. Roadbeds for the railroad cannot be expected to last quite as long.

Obviously then, the mine is not "at the mercy" of the railroad. Both operations enjoy rather a symbiotic relationship where the interests of each are served in the efficient transport of ore to its destination. Thus, we have considered an extreme case. As we move toward situations of greater substitution of one mode for another the elements of competition add diversity to the ways in which common business problems are solved. As we roll down the track from the pit mine to the trunk line, to the switching yards, to the major interchanges, the options multiply to a wide variety of ways to get from here to there. Likewise as we move on to other cargoes the number of carriers increases enabling us to select the one best way of moving our goods to their destination.

Transportation is not a natural monopoly. Railroads, assuredly, being but one mode in the transportation industry are nowhere near a monopoly. Gone by the boards are all the major arguments for maintaining the regulations now imposed on the industry. What is left are the ill defined fears of what *might* happen under deregulation. Based upon the smooth transactions of ordinary business in other industries, it seems extremely unlikely that the exaggerated fears of opponents of deregulation will bear even a remote chance of coming about. However, should some of these fears show signs of developing, it will always be possible to devise specific remedies applicable to the situations that arise. Arguments of opposition to deregulation based on what took place in the years prior to 1887 and the establishment of the I.C.C. seem fundamentally irrelevant today. The entire economic environment has changed and along with it the political situation which fostered many of the ancient abuses imputed to the rail industry.

Simple, Yet Flexible

Any rail plan can be beautifully simple, yet retain the flexibility to deal instantaneously with the dynamics of fluctuating needs. Deregulation would provide the best overall solution to transportation's problems. Nothing's perfect, of course, and there are bound to be many complaints issuing forth from

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such a plan. Nevertheless, the objective has to be to facilitate the maximization of benefits from limited resources. Free entry and exit to the industry, flexible rate and route structures all hold forth the promise of more efficient service to the consumer with less waste. Funds currently misspent in maintaining the current transportation scheme will be released for use in some of society's more pressing needs.

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The Menace of Inflation

LATELY, spokesmen for the AFL-CIO, enraged at the defeat of the common situs picketing bill, have taken to lecturing conservatives (meaning true liberals) for being "anti-people." I often wonder what must go through such critics' heads when they try to buy something for a dollar. Don't they know what has happened to their country (and other countries throughout the world) as the currency has become progressively debauched to pay for all manner of well-meaning "pro-people" welfarist measures?

Some politicians have been catching on—the rejection of the $50 giveaway before it could reach the floor of the U.S. Senate is a good omen. Education, one is gratified to see, is taking hold. When the Committee for Monetary Research and Education held a symposium at Georgetown University in Washington, D.C., in November of 1974, the lead-off speaker was Senator William Proxmire of Wisconsin. Proxmire had not built his reputation as a conservative. But there he was, complaining about our "ponderous and burdensome government" which has been the major culprit in producing "first the creeping, then the running, and finally the galloping inflation." His speech set the tone for all that followed.

The papers contributed by sixteen participants in the Georgetown symposium have been collected in a book, *The Menace of Inflation: Its Causes and Consequences,* edited by G. Carl Wiegand (Devin-Adair, $8.95). Surprisingly, this is a book of many facets. The contributors agree on the basic proposition that inflation in the modern world is generally due to

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the heavy monetization of government debt, which floods the markets with "purchasing power" before any goods have been created to absorb the extra "money" that has been spread around. But the basic economic phenomenon has a thousand dependent social consequences. You cannot debauch a currency without undermining a society in all its root ethical, religious, artistic, military and political assumptions. The "something for nothing" syndrome ruins different characters in different ways, which leaves plenty of room for diversity in the observations made by our sixteen essayists.

Isolating the various strands from the sixteen papers, editor Wiegand notes that inflation has created pauperism, destroyed public morals, and changed the country from a democracy into an oligarchy where 30,000 bureaucrats and politicians determine all our lives. Down the road looms the tyrant who will assuredly come following a final inflationary blow-off spasm.

The Political Costs

Lawrence Fertig, in his paper on the "political costs of inflation," takes a dour look at what happens when nations inflate to "achieve growth." The "growth" doesn't happen. What does happen is a decline in essential capital investment and a fall in the standard of living. In the short run some well-positioned labor unions get a jump on the rest of the country. In England the money that once moved into "imperial" defense channels—a navy powerful enough to rule the world—now goes to support national medicine and government-owned steel mills. But the cradle-to-grave "gains" have only succeeded in spreading the poverty. Meanwhile the bill for sustaining the so-called Western alliance has had to be shouldered by the United States. Fertig tells us that the cost of supporting HEW (the Department of Health, Education and Welfare) makes it impossible to cut our own Federal expenditures back "without seriously eroding the defense budget." So Britain had better not count on our arms. Inflation, it seems, must work to keep any alliance from pursuing a successful foreign policy.

Gary North, a philosopher and theologian as well as an economist, writes about the uncertainty that must afflict any country that cuts itself loose from accepted monetary standards. "A mind without fixed reference points," he says, "is the mind of an infant or a lunatic." As Ludwig von Mises pointed out long ago, the primary flaw of socialism is that lacking reference points in the market, it cannot make rational calculations. So we have govern-

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ments by lunatics. The western socialisms haven't gone all the way to lunacy, but they are approaching it. "Men," says North, "plan for the future in terms of the present, and the present is no longer a reliable guide for the future when it is characterized by inflation."

In his contribution to the Wiegand book, Lemuel Boulware "runs scared." He is eighty years old, but it is not the world of our children that he is worried about. His mother lived to 103—and if inflation is not dealt with soon he is "not going to like what we find down my remaining 23 years."

Impact on the "Third World"

In his own essay Carl Wiegand worries about non-oil-producing Third World countries that go on piling up debts they never will be able to repay. Ibrahim M. Oweiss defends the oil-producing shiekdoms against the charge that they are responsible for the troubles of the West or the poorer Third World nations. The general world inflation had already achieved a dizzying pace before the OPEC countries decided it was stupid to take payment for oil at the old prices in decaying western currencies. Who can blame them for trying to get a top price for a steadily wasting asset?

Most of the contributors to the Wiegand sections on how to remedy and stop inflation favor a return to the fixed reference of gold. Arthur Kemp, fearing that inflation is more of an addiction than a disease, would like to revive the gold standard in the orthodox sense, but in default of that he would accept Milton Friedman's discipline of linking any annual increase in the money supply to productivity. Edward C. Harwood supports a standard of value expressed in a quantity of gold, but he also insists there will be no diminution of inflation until we return to self-liquidating commercial bank credit practices.

David Meiselman would have Congress fix by law the upper and lower limits by which the Federal Reserve may increase the supply of money. Philip Crane remarks that "gold is money; paper is a money substitute." To the extent that we confuse the two, he says, "we create the basic problems which we face today." Patrick Boarman thinks that floating exchange rates encourage international inflation, for they "make it still easier for each country to determine its own money supply and thus its prices." C. Lowell Harriss argues that expenditures paid for out of high taxes can destroy the viability of an economy. They are as "anti-social" as inflation. Could price and wage controls be an answer? Yale Brozen says definitely no.

The concluding papers in the

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Wiegand book, by Hans Sennholz and Donald Kemmerer, are really ringing defenses of gold. Kemmerer lists thirteen standard objections to the gold standard, and, out of his capacious knowledge of monetary history, demolishes every one of them by the simple device of "going to the record." That should be enough to convince a pragmatic country.

WE HOLD THESE TRUTHS
by Lawrence Patton McDonald
('76 Press, P.O. Box 2686, Seal Beach, California 90740, 1976)
180 pages ■ $8.95

Reviewed by Hans F. Sennholz

FACTS we choose to ignore and do not face squarely have a habit of stabbing us in the back. In self-defense we must not blindly overlook danger, but face it courageously and then seek to conquer it. Lawrence Patton McDonald's book, *We Hold These Truths*, does just that, confronting the political and economic dangers that threaten to engulf society.

As a member of the U.S. House of Representatives from Georgia, that is, as a politician, McDonald displays exceptional courage, for his message openly challenges the mainstream of political and economic thought. He writes without regard for his political career, but with a sense of duty and the firm resolve of truth and honor.

The book is a primer on the deterioration of the Republic of the Founding Fathers to the transfer democracy of today. His starting point is the U.S. Constitution as it was designed and adopted by men of vision and courage. And it concludes with a plea for re-establishment of constitutional government, as ordained by the Constitution. But he is not pleading for a return to 18th-century conditions; he is urging us to repair to the high ground of principle that motivated and guided the Founding Fathers.

The Constitution they created provided for a federal government that "was limited to defending us against foreign aggressions and against a few specified kinds of aggressions at home; and it could collect enough sales tax on things we bought to pay the tiny cost of its own operations in protecting us. Otherwise, it was so restricted that it could do nothing for us, except keep its tax collectors' hands out of our pockets, stay out of our affairs, and leave us alone to sink or swim, survive or perish, on our own. If we had any problems we wanted government to help solve, we could only

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appeal to our local or state governments, because there were no grants available to us from Washington. . . . It left Americans so much freedom to manage their own lives that they quickly developed their portion of the backward, underdeveloped western hemisphere. They astonished the world with their unparalleled accomplishments."

The book is an excellent narrative of the changes in legislation and jurisdiction since the early days. In simple, yet elegant style it describes the gradually changing social and economic thought that has permeated legislation, jurisdiction and administration and given rise to the redistributive society of today.

No particular branch of government, nor any one political party can be blamed for the changing values and aspirations that caused Americans to alter their social and economic order. More than one hundred years ago, a new trend of thought that cast doubt on the traditional private property-individual enterprise order and put its faith in political power and government coercion, began to sway the minds of American intellectuals and thought leaders. This explains our economic and social history which, after all, is more than a register or calendar of events, laws or policies. In the final analysis, man's history springs from his system of thought and value, from social and economic philosophy that guides human action.

Dr. McDonald has provided us with a delightful introduction to political science and economics. It touches on such essential course material as the systems of government, on political organization and behavior, and government institutions and policies. It discusses critically such popular economic policies as foreign aid, Federal aid to education, to agriculture, labor, and anyone willing to apply. In short, *We Hold These Truths* is a great little book—noble in cause and design, competent in its execution.

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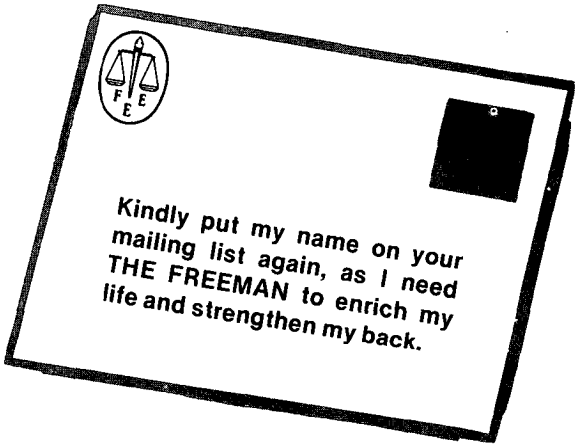
It's nice to be missed . . .

. . . as in a recent letter from a longtime friend who had moved:



It's nice to have friends like that, but we hope you'll let us know promptly if you're moving. Otherwise, there's the cost of the mailings you missed, plus the cost to locate you, plus the cost of replacement copies. And it may be YOUR money!

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